1973

Commonwealth of Pennsylvania

The First Report of the Governor's Commission on Mortgage and Interest Rates

October 6, 1973

Sol E. Zubrow
Chairman

Milton J. Shapp
Governor

Commonwealth of Pennsylvania

THE FIRST REPORT OF THE GOVERNOR'S COMMISSION ON MORTGAGE AND INTEREST RATES

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John R. Bunting, Philadelphia; Chairman, First Pennsylvania Corporation.

Thomas Gallagher, Plymouth Meeting; Housing Director, United Auto Workers (UAW), Region 9.

Marvin Garfinkel, Philadelphia; Attorney.

W. Wilson Goode, Philadelphia; President, Philadelphia Council for Community Advancement.

J. Roger Glunt, Pittsburgh; home builder.

Gregor Meyer, Pittsburgh; President, Pennsylvania Savings and Loan League.

Nancy Neuman, Lewisburg; State Chairman, Committee on Human Resources, League of Women Voters.

Silas W. Pettit, Philadelphia; Director, Phillip Murray House, AF of L-CIO.

Hon. L. Eugene Smith (R.-Jefferson County); Chairman, House of Reprensentatives Committee on Business and Commerce.

Hon. Edward P. Zemprelli (D.-Allegheny County); Chairman, Senate Banking Committee.

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October 6, 1973

Commonwealth of Pennsylvania

Governor's Commission on Mortgage
and Interest Rates

October 6, 1973

Hon. Milton J. Shapp, Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Dear Governor Shapp:

I am pleased to submit to you, on behalf of the members, the first phase summary report of the Governor's Commission on Mortgage and Interest Rates. This report summarizes the findings and major recommendations of the Commission with regard to the "mortgage crisis" of 1973.

In your August 15, 1973 charge you directed the Commission to:

1. Present recommendations within 45 days as to the maximum interest rate ceiling needed to cope with the realities of our swiftly changing money market.

2. Analyze mortgage loan conditions in all parts of Pennsylvania and to develop a long range solution to help avoid a future mortgage crisis.

3. Thoroughly study and carefully analyze, within 90 days, the interest rate structure and usury laws of the Commonwealth in order to develop a coherent policy to avoid future crises.

As you know, the eleven members of the Commission were selected to represent a diversity of interests and backgrounds. The weight of the evidence from six public hearings with testimony from more than a hundred professional and expert witnesses and ordinary citizens, coupled with the independent analysis of staff and advisors, clearly identified the scope and nature of the problems and brought forth recommendations that were virtually unanimously endorsed by the entire Commission.

The "mortgage crunch" is disrupting the lives and livelihoods of many Pennsylvanians, especially those in the lower, moderate and middle income categories. In addition to buyers and sellers of homes, workers, builders, realtors, lenders and other groups associated with the housing industry were adversely affected.

Although the causes of the "crunch" were directly traceable to national economic conditions and policy, as you predicted, the problems in the Commonwealth were exacerbated by Act 55's fixed ceiling of 8% on interest rates for residential mortgage loans under $35,000.

A flexible ceiling for residential mortgage loans under $50,000 has been developed by the Commission as the recommended method for solving the problems caused by the traditional fixed ceiling approach.

The Commission recommends that a monthly flexible ceiling on residential mortgage interest rates be constructed by adding 2.50 percentage units to the interest rate for United States Government long-term bonds for the second preceding month as published in the Federal Reserve Bulletin.

Under the proposed flexible ceiling, the maximum lawful interest rate for July, August, September, October and November, 1973, would have been 8.75%, 8.75%, 9.00%, 9.25% and 9.00%, respectively. You will note that the index is sufficiently sensitive that it would have permitted a higher ceiling during the crunch and is already on the decline.

The investigation also revealed the need for developing a program to assure the flow of mortgage money at reasonable rates to enable the working man of low or moderate income to buy and sell existing homes. The needs of this group are not being adequately met by existing agencies or programs.

The Commission developed several recommendations which respond to the above need. We especially direct your attention to the recommendation that the Pennsylvania Housing Finance Agency be authorized to fund consumer mortgages for residential properties under $35,000 appraised value. We propose that the PHFA issue tax free bonds (without impinging on the State's borrowing limits) in order to provide a self-sustaining and self-financing program to

lend money for first mortgages on residential housing in the Commonwealth. The Agency will funnel the money to consumers through existing lending institutions such as savings and loan associations, savings banks, and other regulated lenders. * It is estimated that mortgage loans at a rate of 7.50% can be made available to lower and middle income families under this program in today's market.

In addition to making needed mortgage money available for existing housing, this program would help attract capital into the State, would encourage savings institutions to increase their share of loans on residential properties in the Commonwealth, and would make available a substantial fund of residential mortgage monies at lower than market rates during periods of tight money.

The statutory provisions of the 115 year old usury law are archaic. The ambiguity of the existing usury statutes creates substantial and needless confusion in the interpretation of that law among lenders and borrowers. The legislation lacks enforceable and effective penalties for usurious actions.

A new usury law is being drafted that will be understandable, enforceable and protect the consumer from unconscionable, unlicensed, unregulated and unsupervised lenders. Some of the proposed changes, as they apply to residential mortgage loans, are included in the summary report submitted herewith.

The major thrust of the proposed new usury law will be to protect consumers by including regulations designed to meet modern needs which were non-existent in 1858. Major new provisions will include uniform disclosure and "truth-in-lending" procedures, new remedies enabling consumers to recover unlawful interest charges, and the prohibition of discount points in residential real estate transactions.

The Commission will be submitting supplementary reports elaborating the recommendations on housing action. A report on the Commission's study of the usury laws will shortly be forthcoming. It will be accompanied by a draft of a proposed modern and comprehensive law for Pennsylvania. These reports will be completed prior to November 16, 1973.

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* Commission member Silas W. Pettit registered the only negative vote against the proposal.

It became apparent as the Commission conducted public hearings across the Commonwealth that many citizens, groups and institutions were looking to State government for leadership in promptly finding solutions to the financial and housing problems resulting from the current economic crisis.

The members of the Commission worked at a rapid pace to meet the public need for an early response to their deeply troubling problems. We know that you and the members of the General Assembly realize the present urgency, will promptly review this report, and, hopefully, will implement the action recommendations as quickly as possible.

Cordially,

Sol E. Zubrow

SOL E. ZUBROW
Chairman

THE FIRST REPORT OF THE

GOVERNOR'S COMMISSION ON MORTGAGE AND INTEREST RATES

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RECOMMENDATIONS

Recommendation Number 1. The present usury statute, which includes the amendments made by Act 55 of 1973, should be repealed and superceded by a new, modern, and comprehensive state usury law. The new statute should provide for a lawful maximum rate of interest on various types of loans in the Commonwealth.

Recommendation Number 2. The new usury statute should provide a flexible ceiling for residential mortgage interest rates to be applied to all residential mortgage loans. Such a flexible ceiling should reflect economic conditions in the long-term money market. The fixed ceiling approach should be discarded.

The flexible ceiling does not fix a market rate; it establishes a ceiling beyond which any interest would be usurious and recoverable. The flexible ceiling permits residential mortgage interest rates to be fixed in the marketplace, so as to remove artificial constraints which inhibit the flow of funds available for home mortgage lending.

Recommendation Number 3. The Commission recommends that a monthly flexible ceiling on residential mortgage interest rates be constructed by adding 2.50 percentage units to the interest rate for United States Government long-term bonds for the second preceding month as published in the *Federal Reserve Bulletin*.

A study of the changes in the interest rates of United States Government long-term bonds since 1965 reveals that they tend to parallel the movement of the U. S. and Pennsylvania mortgage interest rates. This parallel movement has been maintained through the mortgage money crunches of 1966, 1970 and 1973 and the intervening periods of "normal" interest rates.

The addition of 2.50 percentage units to the interest rate of the United States Government long-term bonds is required to assure a sufficient spread which will permit mortgage interest rates to fluctuate *under* the ceiling. It is apparent that the *average* mortgage interest rate is a composite of individual rates which reflect various types of mortgage loans. The ceiling must accommodate all types of mortgage loans, including those with high risk factors or those with small down payments which require above average interest rates.

Historically, monthly average interest rates have always been approximately 1.80 percentage units above the monthly average United States Government long-term bond interest rate. The additional spread of 0.70 percentage units is needed to assure

that mortgage loans at rates above the average, which entail high risk factors or small down payments, will not be forced out of the market.

The two-month lag is recommended because the movement of mortgage interest rates generally tends to follow that of the bond rate by a two-month interval; this also permits time for the publication of the average bond interest rate in the Federal Reserve Bulletin; and, the lag permits lenders and borrowers to know what the usury ceiling limit will be at the time of closing or commitment. For example, the bond interest rate reflecting September, reported in October, would be the base for computing the November ceiling. NOTE: A detailed explanation of the flexible mortgage interest rate ceiling begins on page 8. It is accompanied by a graph and a table describing the historical movement of the component factors.

Recommendation Number 4. Any mortgage loan in an amount in excess of $50,000 should not be considered as a residential mortgage loan and should be exempt from the flexible usury ceiling on residential mortgages.

All loans, including residential mortgages, with a bona fide original principal amount over $50,000, should be exempt from all provisions of the usury laws of the Commonwealth.

Recommendation Number 5. The present six-month statute of limitations on recovery of usurious interest should be extended to four years in order to make the remedy available to individual consumers more effective.

In actions by individual borrowers to recover or avoid excessive, usurious interest, the new statute should provide for recovery of reasonable attorneys fees, in order to help reduce the burden on an aggrieved consumer.

In cases where an interest rate on a loan is found to be usurious, the borrower should, in all cases, be entitled to recover the unlawful interest actually paid. However, in cases where a court might find an intentioned violation of the law by a lender, the consumer-borrower would be entitled to recover treble damages (three times the excessive, unlawful interest actually paid).

Recommendation Number 6. In all residential mortgage transactions (except FHA or VA) the practice of discount points should be specifically outlawed. On such loans, service points should be limited to one percent of the actual purchase price paid for an existing residence, and to two percent for construction loans for a new residence.

Recommendation Number 7. In computing the effective interest rate to which the flexible usury ceiling should apply, all charges and fees other than actual settlement costs should be computed on an amortized basis over the stated contract term of the mortgage.

Recommendation Number 8. Prepayment penalties should continue to be prohibited on all residential mortgage loans, except those mortgages with a bona fide original principal of over $50,000.

Recommendation Number 9. All relevant facts, fees and rates should be disclosed to the buyer in a uniform and concise manner at the time of the execution of an agreement for the purchase of a home which is dependent upon a mortgage commitment.

Recommendation Number 10. The Commonwealth should take every possible measure to assure the opportunity for home ownership to low, moderate and middle income families. The State should act, using existing agencies and without creating additional bureaucracy, to increase the supply of funds available in the mortgage market.

The Commission will recommend detailed measures to implement these objectives. Such recommendations will include, but not be limited to, the following:

A. To use the Pennsylvania Housing Finance Agency (PFHA) to issue tax-free bonds in order to provide for a self-sustaining and self-financing program to increase the supply of funds available for home mortgage loans to low, moderate and middle income families.

The proceeds of these tax-free bonds should be loaned to savings and loan associations, banks and other thrift institutions, who would in turn guarantee to relend that money for mortgage loans to individuals.*

The cost to the lending institution would be no more than 0.50 percentage units above the cost of the bond issue. These 0.50 percentage units would defray the expenses of the agency and make it self-supporting. The lending institutions would issue mortgages at an interest rate no higher than 1.50 percentage units over its cost from the State. For example, if a bond issue were to come in at 5.50 percent, the State would lend it at 6.00 percent, and the lending institution could provide a mortgage to the ultimate consumer at 7.50 percent. The 1.50 percentage units spread would pay for the administration, handling and profit of the mortgage loan by the lending institution.

In order to participate in this program, lending institutions would be required to demonstrate that a reasonable share of their portfolio was invested in residential mortgage loans in Pennsylvania. A share of one-half would be acceptable.

To assure the use of these funds for aiding lower to middle income families, it is recommended that a maximum appraised value be established by the agency. In today's housing market the Commission recommends that the maximum appraised value be set at $35,000.

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* Commission member Silas W. Pettit registered the only negative vote against the proposal.

The effect of this program is:

(1) to increase the supply of mortgage funds for housing for lower to middle income Pennsylvania families.

(2) to attract capital into the Commonwealth through the sale of the tax-exempt bonds.

(3) to encourage saving institutions to increase their share of mortgage loans in the Commonwealth, thus keeping capital in the Pennsylvania mortgage market.

(4) to make available a substantial fund of monies at lower than market interest rates, which is especially important during periods of tight money.

B. To increase the current ten percent limit on the authorization for the Department of Community Affairs to make cash grant subsidies to low and moderate income families for the purchasing of homes.

C. To remove current restrictions from the Department of Community Affairs program and from State pension fund programs which limit such grants to mortgages insured by the federal government so as to include all insured mortgages, including conventional mortgages.

Exhibit 1

Explanation of the Proposed Flexible Mortgage Interest Rate Ceiling Based on Long Term United States Government Bonds

The flexible mortgage ceiling illustrated in the attached graph (Exhibit 2) and table (Exhibit 3) is based on the monthly average yield of all outstanding United States Government bonds due or callable in ten years or longer.

The ceiling is computed simply by taking the average yield as compiled and published by the Federal Reserve Board and adding 2.50 percentage units. This number is then rounded to the nearest quarter point. The ceiling is recomputed monthly, as the new monthly bond yield average becomes available, and it is applied with a two-month lag, so that the bond index in August is the basis for the ceiling to be effective in October, and so forth.

The attached chart indicates the spread between the ceiling and actual average mortgage rates for both the United States and the Philadelphia metropolitan area for the period 1965-1973. Note that the ceiling is especially responsive to rising long term interest rates during periods of tight money, and in this historical period it provided substantial leeway for mortgage rates. Furthermore the changes in the ceiling correspond to actual mortgage interest rate changes--in other words, it rises as mortgage rates do and falls as they do--thus avoiding serious

constraints in either peak or trough periods. Finally, unlike a rigid ceiling, the flexible one falls as soon as long term interest rates fall.

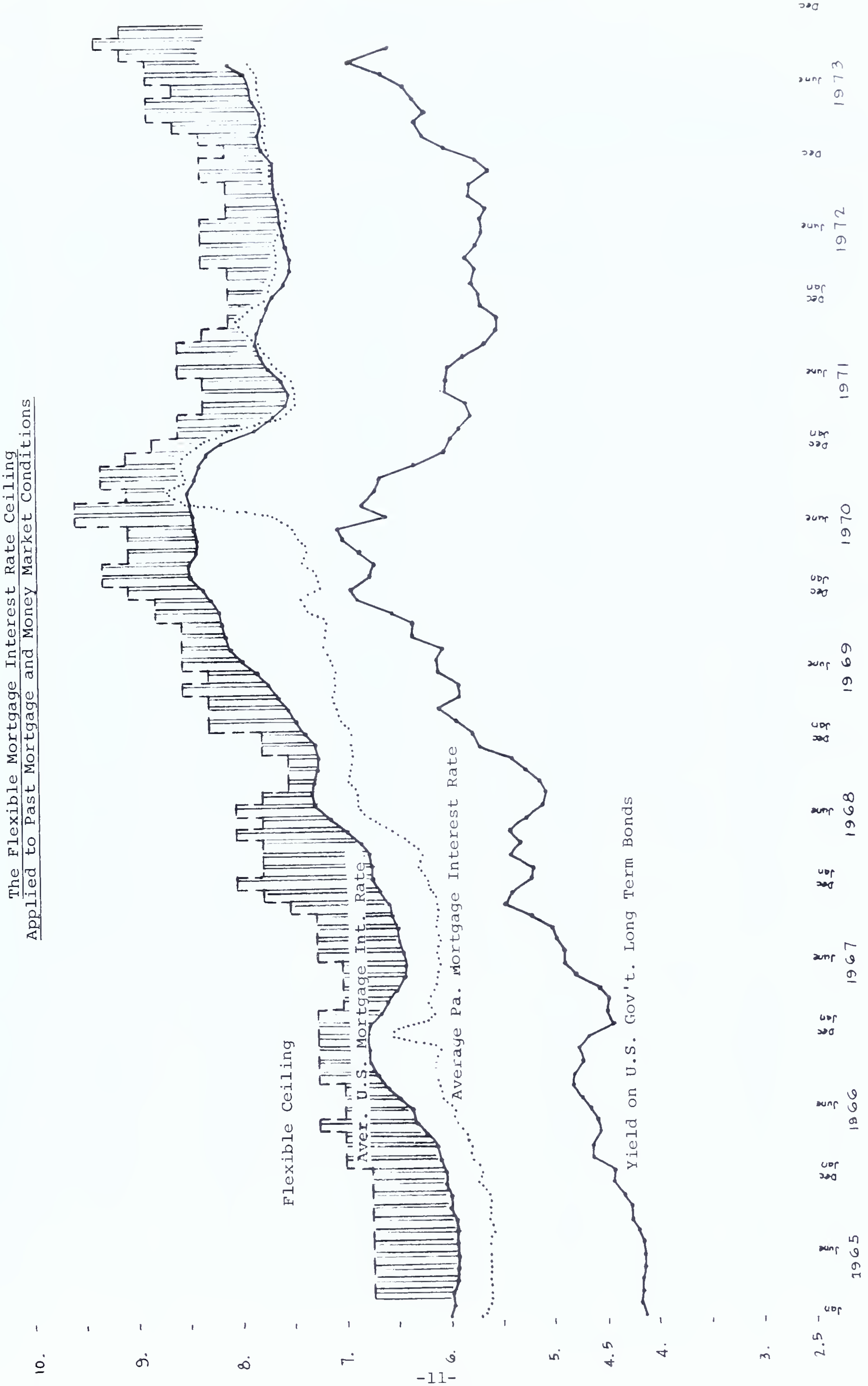
The attached table shows what the ceiling would have been for every month between 1965 and October of this year, had the flexible ceiling concept been used. The first two columns show effective average mortgage rates for all lenders on loans made for the entire nation and for the Philadelphia metropolitan area. The latter series comes the closest of any available to representing rates for the state. The third column gives yield on long term government bonds for the same period. The fourth column shows the ceiling computed by adding 2.50 percentage units to the bond yield for the second previous month and rounding to the nearest one-quarter percent. The last column shows the spread in basis points (hundredths of a percent) between the ceiling and the United States mortgage rate in column one. This, rather than the Philadelphia rate was used, since it is more representative of the free market performance of mortgage rates. At various times in the past--notably in the first half of 1970--the Philadelphia rate was constrained by the state's interest ceiling.

The average spread for the entire period is about 69 basis points. In no case is the spread less than 20 points, and it is within a spread of 30 points in only a few months during the eight and one-half year period.

It is important to note that during the 1966, 1970, and 1973 tight money periods, the ceiling responded quickly to increasing interest rates and in the last two periods the spread between it and average mortgage rates increased substantially to over 100 basis points in the summer of 1970 and 75 to 100 points in the spring and summer of this year.

Thus the flexible ceiling is truly responsive to major changes in the money markets, without constraining lenders or setting a very high rate which would have no meaning to consumers during normal times.

Exhibit 2



The Flexible Mortgage Interest Rate Ceiling
Applied to Past Mortgage and Money Market Conditions
Flexible Ceiling
Aver. U.S. Mortgage Int. Rate
Average Pa. Mortgage Interest Rate
Yield on U.S. Gov't. Long Term Bonds
10.
9.
8.
7.
6.
5.
4.5
4.
3.
2.5
1965
1966
1967
1968
1969
1970
1971
1972
1973
Jan
June
Dec

Exhibit 3

The Flexible Mortgage Interest Rate Ceiling

Applied to Past Mortgage and Money Market Conditions

	Average Mortgage Rates		U.S. Long Term Bond	Flexible	Spread vs U.S. Mortgage Rates
1965	U.S.	Phila.	Yield (%)	Ceiling (%)	(Basis Points)
Jan.	6.00	5.71	4.14	-	-
Feb.	5.97	5.62	4.16	-	-
Mar.	5.96	5.61	4.15	6.75	79
Apr.	5.94	5.63	4.15	6.75	81
May	5.93	5.61	4.14	6.75	82
June	5.91	5.62	4.14	6.75	84
July	5.92	5.62	4.15	6.75	83
Aug.	5.92	5.59	4.19	6.75	83
Sept.	5.94	5.61	4.25	6.75	81
Oct.	5.97	5.62	4.27	6.75	78
Nov.	5.97	5.64	4.34	6.75	78
Dec.	6.01	5.73	4.43	6.75	74
1966					
Jan.	6.03	5.67	4.45	6.75	72
Feb.	6.06	5.78	4.61	7.00	94
Mar.	6.10	5.79	4.63	7.00	90
Apr.	6.19	5.82	4.55	7.00	81
May	6.30	5.92	4.57	7.25	95
June	6.34	5.94	4.63	7.00	66
July	6.46	6.05	4.74	7.00	54
Aug.	6.56	6.07	4.80	7.25	69
Sept.	6.66	6.11	4.79	7.25	59
Oct.	6.73	6.11	4.70	7.25	52
Nov.	6.75	6.06	4.74	7.25	50
Dec.	6.76	6.51	4.65	7.25	49
1967					
Jan.	6.74	6.38	4.40	7.25	51
Feb.	6.63	6.13	4.47	7.25	62
Mar.	6.56	6.16	4.45	7.00	44
Apr.	6.46	6.11	4.51	7.00	54
May	6.40	6.09	4.76	7.00	60
June	6.39	6.07	4.86	7.00	61
July	6.41	6.09	4.86	7.25	84
Aug.	6.46	6.07	4.95	7.25	79
Sept.	6.47	6.09	4.99	7.25	78
Oct.	6.52	6.08	5.18	7.50	98
Nov.	6.55	6.08	5.44	7.50	95
Dec.	6.64	6.14	5.36	7.75	111

1968	Average Mortgage Rates U.S.	Phila.	U.S. Long Term Bond Yield (%)	Flexible Ceiling (%)	Spread vs U.S. Mortgage Rates (Basis Points)
Jan.	6.70	6.16	5.18	8.00	130
Feb.	6.71	6.25	5.16	7.75	104
Mar.	6.72	6.22	5.39	7.75	103
Apr.	6.77	6.35	5.28	7.75	98
May	6.95	6.51	5.40	8.00	105
June	7.12	6.73	5.23	7.75	63
July	7.23	6.84	5.09	8.00	77
Aug.	7.26	6.83	5.04	7.75	49
Sept.	7.25	6.91	5.09	7.50	25
Oct.	7.22	6.90	5.24	7.50	28
Nov.	7.21	6.87	5.36	7.50	29
Dec.	7.23	6.90	5.65	7.75	52
1969					
Jan.	7.32	6.88	5.74	7.75	43
Feb.	7.42	6.99	5.86	8.25	83
Mar.	7.49	7.02	6.05	8.25	76
Apr.	7.60	7.06	5.84	8.25	65
May	7.68	7.04	5.85	8.50	82
June	7.79	7.04	6.06	8.25	46
July	7.94	7.06	6.07	8.50	56
Aug.	8.05	7.15	6.02	8.50	45
Sept.	8.08	7.14	6.32	8.50	42
Oct.	8.13	7.12	6.27	8.50	37
Nov.	8.15	7.29	6.51	8.75	60
Dec.	8.24	7.36	6.81	8.75	51
1970					
Jan.	8.29	7.18	6.86	9.00	71
Feb.	8.41	7.20	6.44	9.25	84
Mar.	8.43	7.22	6.39	9.25	82
Apr.	8.34	7.29	6.53	9.00	66
May	8.34	7.36	6.94	9.00	66
June	8.36	7.44	6.99	9.00	64
July	8.37	7.61	6.57	9.50	113
Aug.	8.41	8.36	6.75	9.50	109
Sept.	8.42	8.61	6.63	9.00	58
Oct.	8.35	8.44	6.59	9.25	90
Nov.	8.32	8.49	6.24	9.25	93
Dec.	8.26	8.49	5.97	9.00	74

1971	Average Mortgage Rates U.S.	Phila.	U.S. Long Term Bond Yield (%)	Flexible Ceiling (%)	Spread vs U.S. Mortgage Rates (Basis Points)
Jan.	8.08	8.28	5.91	8.75	67
Feb.	7.80	7.94	5.84	8.50	70
Mar.	7.80	7.51	5.71	8.50	90
Apr.	7.47	7.38	5.75	8.25	78
May	7.45	7.38	5.96	8.25	80
June	7.50	7.42	5.94	8.25	75
July	7.63	7.54	5.91	8.50	87
Aug.	7.71	7.64	5.78	8.50	79
Sept.	7.76	7.69	5.56	8.50	74
Oct.	7.75	7.86	5.46	8.25	50
Nov.	7.69	7.90	5.44	8.00	31
Dec.	7.64	7.80	5.62	8.00	36
1972					
Jan.	7.58	7.62	5.62	8.00	42
Feb.	7.48	7.63	5.67	8.00	52
Mar.	7.44	7.55	5.66	8.00	56
Apr.	7.42	7.53	5.74	8.25	83
May	7.46	7.56	5.64	8.25	79
June	7.49	7.50	5.59	8.25	76
July	7.50	7.46	5.57	8.25	75
Aug.	7.52	7.45	5.54	8.00	48
Sept.	7.55	7.48	5.70	8.00	45
Oct.	7.57	7.56	5.69	8.00	43
Nov.	7.57	7.62	5.50	8.25	68
Dec.	7.59	7.60	5.63	8.25	66
1973					
Jan.	7.68	7.68	5.94	8.00	32
Feb.	7.72	7.66	6.14	8.25	53
Mar.	7.69	7.64	6.20	8.50	81
Apr.	7.70	7.64	6.11	8.75	105
May	7.77	7.69	6.22	8.75	98
June	7.79	7.71	6.32	8.50	71
July	7.84	7.73	6.53	8.75	91
Aug.	8.01	7.79	6.81	8.75	74
Sept.	8.25		6.42	9.00	
Oct.				9.25	
Nov.				9.00	
Dec.					

THE ORIGINS, NATURE, AND SCOPE OF THE "MORTGAGE CRUNCH"

These are hard times for potential home buyers--and for home sellers, builders, construction workers, real estate agents and mortgage lenders--across the United States. In all fifty states and in all 2,600 Pennsylvania municipalities the "mortgage crunch" is of crisis proportions. The search for ways to cope with this complex and vexing problem requires a firm understanding of its origins, nature and scope.

The symptoms of this disease are troubling and all-too apparent: high mortgage interest rates, an acute shortage of mortgage funds, higher down payments, shorter mortgage loan terms, strict lender selectiveness of borrowers. How did this all develop, and why?

The health of the national economy, it goes without saying, affects all aspects of our national economic life and all segments of our economy. The mortgage market is no exception. The key word in describing the current state of the national economy is "inflation." Many factors have contributed to the rapid rate of inflation--an economic boom accompanied by increases in consumer demand and spending, expansionary credit policies of the Federal Reserve System through much of the past three years, increased spending by the Federal Government, financed largely by budget deficits in 1970-1972, and increased exports of food and other basic commodities to satisfy a growing demand throughout the world.

In the first half of this year, a booming economy with attendant shortages of products spurred price rises. And there was also a psychological factor as sellers sought to make up for previous limits on their mark-ups related to government price controls.

As inflation rises, the "real" interest rate--that is, the return lenders receive for their money--declines. A high rate of inflation over the long run may push up the interest rates, since lenders begin to expect a higher rate of return on their money. Yet while inflation is a precondition for a credit squeeze, it is not a direct cause.

The first direct factor is closely related to inflation. Early this year, in an attempt to cool the economy, the Federal Reserve Board began to constrict the growth of money and credit. And credit, after all, is exactly what a mortgage represents to a potential home buyer. The Fed's policies were intended to slow growth in the economy by increasing the costs of credit--and thus of everything bought with credit, from a new car or home to the new factory or machinery. Home buyers, as the single largest users of credit in the economy, are always hit early and hard by these credit squeezes, and 1973 is no exception.

By moderating economic growth, the Fed hopes to slow inflation. But the credit squeeze of 1973 has not been accompanied by moderating prices or a slowing of the inflation rate. On the other hand, tight money has meant soaring interest rates and less mortgage money. This is translated into higher down payments and larger monthly payments for mortgages, and into difficulty in borrowing money for home purchases.

The Feds continued to rein in the economy through the summer and into September, and interest rates continued to spiral. In the July - September quarter, the nation's money supply actually experienced no growth at all. However, in the past two weeks these tight money policies have been at least partly reversed, with both long and short term interest rates falling to their early summer levels. If this recent trend continues, mortgage interest rates will also fall, although they usually lag somewhat behind other credit instruments.

But the story does not end here. High interest rates alone would have caused a mortgage crunch. But Federal agencies compounded the problem on July 5 by removing the limits on interest which could be paid to certain savers by both commercial banks and savings and loan associations. In theory this was supposed to ease the crunch by allowing lenders to raise the rates they paid for savings, thus attracting new funds into their accounts, which they could then lend to home buyers.

Thus began a battle for the saver's dollar, with the commercial banks and savings and loan associations pitted against each other and against the return which the individual could get in the short term money market. Savers began withdrawing large sums of money to take advantage of short term money market rates in the 9 - 12 percent range. Commercial banks responded by offering four-year $1,000 "wild card" certificates, paying 7½ to 10 percent in an effort to hold deposits, and thus cut down on withdrawals.

Thrift institutions (savings and loan associations and mutual banks) could not compete with either the commercial banks or the money market since most of their assets were tied up in mortgages which in the aggregate yielded around 7 percent. Thus, in July and August, the nation's savings and loan associations lost $1.5 billion in deposits which otherwise could have been used to make mortgage loans. This phenomenon, known technically as disintermediation, made the already short supply of mortgage money critical.

In Pennsylvania alone the savings and loan associations lost about $48 million in July, $115 million in August and about $40 million in September. On the other hand, in these same three months last year, these institutions gained some $200 million. The net difference between 1972 and 1973 was therefore about $400 million (and this doesn't include commercial and mutual banks which also had losses). This was the largest outflow in Pennsylvania's history, and it resulted in a drastic reduction in mortgage funds available.

Another change in Federal policy, this one by the Treasury, further interfered with the flow of mortgage money. Lucrative investments in U. S. Treasury notes had been limited by minimum purchase requirements of $5,000 or $10,000. This was lowered to $1,000, thus attracting more millions out of the thrift institutions and the commercial banks. Again, a large share of those funds would otherwise have been available for mortgage lending.

Each of these successive steps has sharply constricted the mortgage market, which was already hard hit by the tight money and escalating money costs.

The acute shortage of mortgage money is, therefore, at least as important an element in the mortgage crunch as the interest rate problem. If there are no funds to borrow, the question of the interest rate becomes academic. The inadequate supply of money in the savings and loan associations is easily illustrated by reviewing the amounts of money they have borrowed from their central bank, the Federal Home Loan Bank, and from other banks. On July 31, 1972, Pennsylvania savings and loan associations owed a total of about $282 million to the FHLB and other banks; on July 31, 1973, that amount had almost doubled to $559 million. The savings and loan associations, furthermore, are now paying 9½ percent interest on those borrowings.

The impact on housing and home mortgages was quickly felt: commitments for mortgages made in July by savings and loan associations throughout the nation were down about 25 percent compared with the same month last year. In Pennsylvania, they fell somewhat more: 29 percent. Preliminary figures for August indicate little additional drop nationally, but a decline of 18 percent for the State.

The loss of funds in Pennsylvania thrift institutions, the consequent increase in their borrowing from the Federal Home Loan Bank, and the sharp decline in mortgages granted varied from one geographic area to another. Institutions in the metropolitan Philadelphia area felt the impact first, followed closely by those in the Pittsburgh area. Institutions in other urban areas were affected before those in the rural areas. In a few areas, notably the Wyoming Valley (Wilkes-Barre and Scranton), the problem was not yet acute as of early September.

FINDINGS

The findings presented below were developed from the public testimony of expert, professional and other witnesses and by the analysis of relevant economic and social data presented by the Commission staff and advisors.

Finding Number 1. The 1973 mortgage crunch is not unique to Pennsylvania, nor was it caused by legislative action in Pennsylvania. The problem is severe throughout the country. Federal budgetary and monetary policies, and overall national economic conditions, are the primary reasons for high mortgage interest rates and for the shortage of money available for home purchasing.

Finding Number 2. The eight percent ceiling on mortgage interest rates established by Act 55 of 1973 (S.B. 262) has curtailed the flow of money for residential mortgage loans during the present period of high interest rates resulting from the inflationary economy.

Finding Number 3. The effect of the $35,000 limit in Act 55 is to discriminate against lower and moderate income families. $35,000 mortgages generally apply to homes with a value of about $45,000 or more. Buyers and sellers in this category were unable to secure mortgage commitments on a normal, conventional basis. Mortgage loans above $35,000 were available and granted in the normal manner by the lenders at interest rates above the eight percent ceiling.

Finding Number 4. Higher mortgage payments and greater selectivity in granting mortgage loans by lenders forced a substantial number of home buyers out of the market. The additional financial burdens for the home buyer at this time were larger down payments and larger monthly payments resulting from higher interest rates and shorter length of loans. The greater selectivity excluded potential buyers who did not have established banking relationships or excellent credit ratings. This further restriction of credit particularly affected new residents, young couples, women, and families with budgets already strained by inflation.

Finding Number 5. The mortgage crunch in Pennsylvania was so acute as to properly be labeled a "crisis." The impact on the buying and selling of homes and on the budgets and housing needs of families was directly felt in the lives of thousands.

The livelihoods of all those employed in the housing industry were disrupted by the mortgage crisis. Builders, construction workers, real estate brokers and salesmen are all threatened with income and employment losses.

Single-family residential housing starts in Pennsylvania were being sharply curtailed, and in some cases stopped, because of the inability of potential buyers to obtain mortgages, especially those loans under $35,000, and because of the refusal of lenders to finance construction of houses for which the ultimate buyer may be unable to obtain a mortgage. The disruption of the home building industry was further aggravating the already short supply of housing.

Finding Number 6. The degree of the mortgage crisis varied throughout the different parts of the State. In metropolitan Philadelphia, loans for mortgages under $35,000 were almost immediately halted upon passage of Act 55 in July, except for favored borrowers. In the Wilkes-Barre and

Wyoming Valley area in the northeastern section, in early September, mortgages were still being granted, but lenders were concerned about an impending shortage of funds for mortgage loans.

Finding Number 7. Potential home buyers who have been forced either to defer or to forego the purchase of a home as a result of the current crisis have often sought rental housing as an alternative.

An acute shortage of suitable rental housing exists in many areas of the Commonwealth, so that this alternative is either strictly limited or nonexistent. Outside the urban areas, potential home buyers have often turned to mobile homes as another alternative.

Finding Number 8. The present Pennsylvania fixed interest rate ceiling technique, in use since 1858, is archaic. It is not sufficiently responsive to the rapidly changing money market needs of the 1970's. Recent Pennsylvania experience has been to deal with the fixed ceiling on a crisis-to-crisis basis. While the legislature may fix the ceiling at a suitable level when it is passed, it becomes outdated as the money market changes before amendments can be made.

Finding Number 9. Money, being "fluid," will seek its own investment level, despite strong community and legal pressures for savings and loan associations and other home mortgage credit suppliers to invest in mortgages. Legislative fiat cannot restrict the flow of money, within or without geographic or political borders; an arbitrary, artificial interest ceiling not related to current national economic conditions tends to encourage the flow of money out of the State, or into alternative forms of investment.

Finding Number 10. Many home purchasers were unable to obtain conventional mortgages because of the eight percent ceiling, and instead sought FHA or VA mortgages. The FHA-VA mortgages were obtained at effective interest rates higher than the eight percent ceiling on conventional mortgages. In September, the effective FHA-VA mortgage interest rate in Pennsylvania ranged from 9.75 percent to 10.50 percent. An FHA or VA mortgage now carries a contract interest rate of eight and one-half percent plus a required one-half percent insurance premium. Additionally, the effective cost to the home buyer frequently includes all or a substantial part of the discount points paid by the seller to induce the mortgage lender to advance funds at the eight and one-half percent contract interest maximum.

Each discount point equals an actual cost to the home buyer of between one-eighth and one-fourth percent additional interest per annum, depending on the period elapsed before the loan is paid off. Effectively, when passed on to the buyer, an eight-point discount, which is common in Pennsylvania as of September, 1973, increases the actual interest cost to the home buyer between one and one and one-half percent per annum.

Thus, the effective annual interest rate on FHA-VA mortgages is currently in the 9 3/4 percent to 10 1/2 percent range. The eight percent ceiling, therefore, not only prevented many buyers from obtaining conventional mortgages, but also resulted in their resorting to more expensive financing.

<u>Finding Number 11</u>. Many mortgage lenders and realtors in various parts of the State did not participate in the FHA or VA mortgage loan programs. Unfamiliarity with the forms and procedures and complaints about bureaucratic delays and administrative inefficiencies were reasons cited for the low level of activity.

FHA and VA mortgage loans, however, are the principal source of financing in certain sections of the inner city where conventional loans are not available even in normal times.

Finding Number 12. The lack of residential mortgage funds has placed persons seeking to sell their homes at a disadvantage, by reducing the number of potential buyers. As a result, home sellers sometimes accepted a net sum which was less than they might have received on a more open market.

Finding Number 13. Even though the average residential mortgage loan contract term in the Commonwealth is about twenty-five years, the actual life of the loan averages from eight to twelve years. The mortgage interest rate assumes the characteristics of longer term rates such as those for corporate and government bonds, and not the characteristics of shorter term rates such as the prime rate.

Finding Number 14. Unlicensed, unregulated and unsupervised lenders other than banks, savings institutions and insurance companies constitute a significant element of the residential mortgage market.

Finding Number 15. Because home purchases are infrequent for the average family, otherwise sophisticated consumers are ill-informed about the financial and legal aspects of buying a home and securing a mortgage. They often approach the home purchase solely from the viewpoint of the amount of the monthly

payment and have no understanding of the relationships among interest rates, length of the maturity term of the mortgage, discount points, down payments, etc.

Finding Number 16. A usury law limiting the interest rate on residential mortgage loans and other loans to individuals is needed to protect the consumer from unregulated and unlicensed lenders, e.g., debt consolidators, second mortgage lenders, and from all unconscionable lenders.

Finding Number 17. Existing legislation lacks effective, enforceable penalties for usurious action. There is a need for effective enforcement.

The ambiguity of the existing usury statutes creates substantial and needless confusion in the interpretation of the law among lenders and borrowers.

Finding Number 18. Pre-payment penalties on small residential mortgages have not been legal in Pennsylvania for the last several years. Despite the absence of these penalties, the availability of mortgages has not been measurably reduced.

Finding Number 19. There is not now any uniform, concise, commonly understood and accepted method of disclosing essential facts about the mortgage transaction.

Finding Number 20. A study of the changes in the interest rates of United States Government long term bonds since 1965 reveals that they tend to parallel the movement of both the U. S. and Pennsylvania mortgage interest rates.

CONCLUSIONS

Conclusion Number 1. The current crisis in home mortgage lending is a national problem. Its causes are deeply rooted in the inflationary national economy. The Commonwealth can accomplish little to alleviate the problem by attacking the causes.

Conclusion Number 2. The Pennsylvania fixed ceiling on residential mortgage interest rates has exacerbated the mortgage crunch in the Commonwealth.

The eight percent residential mortgage interest rate ceiling established by Act 55 of 1973 (S.B. 262) was not adequate to assure a normal, unimpeded flow of funds for mortgage loans during the present period of increasing interest rates. To the extent that the eight percent fixed ceiling has achieved its intended purpose of preventing most home buyers from having to pay higher interest rates, it has generally done so by preventing them from buying a home with conventional financing. As disagreeable and burdensome as high interest rates as to the monthly budget of the average family, the denial of the opportunity to buy any home is a greater harm.

The $35,000 limit to which the usury ceiling applies was counterproductive, and discriminated against buyers and sellers seeking mortgage loan commitments under this usury ceiling.

At today's housing costs, the $35,000 loan limit effectively removed most residential housing from the limited mortgage funds available. These limited funds were generally misallocated to higher priced houses requiring mortgages in excess of $35,000.

Conclusion Number 3. It is the use of a fixed ceiling on residential mortgage interest rates which is the principal flaw in the state's mortgage usury policy. A fixed ceiling tends to create recurring emergencies with which any legislative body is not institutionally equippped to cope. The recent history of the fixed ceiling in Pennsylvania has demonstrated beyond doubt that expeditious, appropriate and timely response is legislatively difficult. The fixed ceiling and the inability to adjust it on a continuing basis has created repeated crises.

Conclusion Number 4. Low, moderate and middle income families have been most severely injured by the current home mortgage crisis. The eight percent fixed ceiling on residential mortgage loans under $35,000 has effectively driven many of these families from, and denied them access to, the home buying market. The current statute, which was intended to protect low, moderate and middle income families, has been self-defeating

Conclusion Number 5. Pennsylvania is a state with a mature economy, industrially based, and with a history of individual and family thrift. The Commonwealth has traditionally exported surplus capital to other areas of the nation. State legislation cannot successfully control the flow of capital among states and regions. Serious economic harm results when statutory fiats attempt to regulate one isolated segment of the money market. The eight percent fixed ceiling on residential mortgage interest rates for loans under $35,000 has not succeeded in depressing mortgage interest rates; instead, it has driven capital from the home mortgage market into other investment opportunities. The ceiling has prevented the flow of outside capital into Pennsylvania by creating a lack of attractive investment opportunities in the secondary mortgage market.

Conclusion Number 6. The statutory provisions of the 115-year-old usury law are archaic in 1973. The existing legislation lacks enforceable and effective penalties for usurious actions. Enforceable and effective penalty provisions are needed.

Conclusion Number 7. In their existing form, the Pennsylvania usury statutes, which contain language amended since 1858, are a hodge-podge of confusing, ambiguous and ineffective

provisions. The language defies adequate interpretation by lawyers and judges alike. Clear, concise, logical language is needed.

Conclusion Number 8. Unlicensed, unregulated and unsupervised lenders, other than savings institutions, banks, and insurance companies, constitute a significant element in the residential mortgage market.

Conclusion Number 9. Additional protections for the consumer beyond those which now exist are needed. Such additional protections should include a "truth-in-lending" type of disclosure to be applied to all residential real estate transactions.

Conclusion Number 10. Usury laws serve a useful function in providing necessary protection to inexperienced, uninformed, unwary, and other home purchasers who might otherwise unknowingly be subjected to the machinations of overreaching lenders. Home purchases are infrequent for the average family; as a result, otherwise sophisticated consumers may be ill-informed about the complexities of buying a home and securing a mortgage.

APPENDICES

APPENDIX A: BACKGROUND

FORMATION OF THE COMMISSION

On July 23, the state statute fixing the maximum lawful rate of interest on home mortgage loans at eight percent had expired and the legal ceiling had reverted to six percent. S.B. 262, as passed by the General Assembly and forwarded to the Governor, provided for restoring the eight percent fixed ceiling for two more years.

The adequacy of even the eight percent limit on residential mortgage interest rates was in doubt and had been hotly debated in the legislature. The six percent level, which had been effective for three days when S.B. 262 reached the Governor's desk, would create a crisis--home buying and selling and the housing industry faced an impending collapse.

Thus, the Governor had only two choices: (1) refuse to sign S.B. 262 and as a result effectively halt mortgage lending and home buying and selling in Pennsylvania, or, (2) sign S.B. 262 into law, recognizing that the continuation of the eight percent fixed ceiling would obstruct the flow of mortgage money during the existing period of high interest rates resulting from the inflationary economy. Additionally, the $35,000 limit on mortgage loans to which the eight percent ceiling applied would have the effect of blocking lower and middle income families from the home buying market.

The Governor signed the bill into law on July 26 "with great reluctance." At the time of the formal signing, Governor Shapp laid the foundation for a thorough study of the law and described his objections to it.

The deficiencies in S.B. 262, Act 55 of 1973, highlighted by Governor Shapp, were as follows:

1. There is no requirement in the law that allows consumers to renegotiate or extend their present mortgages without paying additional interest. This deletion from the previous law was described by Governor Shapp as "unfair to mortgage holders."

2. The new law (Act 55) reduces from $50,000 to $35,000 the amount of residential mortgage loans to which the eight percent interest rate ceiling applies. There is no limit on the amount of interest which may be charged on home mortgages above $35,000. Governor Shapp predicted the impact of the law would be that above $35,000 there would be no ceiling, and below $35,000 there would be no mortgage money available.

3. The removal of all interest rate ceilings on business loans in excess of $10,000 and the retention of an eight percent ceiling on such loans below $10,000 would hurt small businessmen, predicted Governor Shapp, because many small businesses would be unable to obtain a loan at the eight percent rate or less under existing national economic conditions. The Governor could find "no justification for such discrimination."

4. The limitation on the home mortgage interest ceiling at eight percent until December 31, 1975, charged Governor Shapp, "bears no relation to the reality of the swiftly changing money market."

Therefore, while signing S.B. 262 "as a necessary step to be taken today to enable Pennsylvanians to build, buy and sell homes during this present period of crisis," Governor Shapp announced that he would quickly appoint a commission of experts to study the home mortgage problem and report back to him within three months. The Governor said he would specifically charge this Commission "to analyze mortgage conditions in all parts of Pennsylvania and to develop a long-range solution to help avoid a future mortgage interest rate crisis." Upon receipt of the report of this Commission, the Governor pledged to call upon the General Assembly to take quick action and not wait until the end of 1975 to take corrective steps.

Only eight days later, on August 3, Governor Shapp announced the appointment of Sol E. Zubrow as Chairman of the Governor's Commission on Mortgage and Interest Rates. "This Commission," the Governor elaborated, "will submit to me in the shortest possible time recommendations to sustain the flow of mortgage money to those Pennsylvanians who want to purchase homes. It will also make recommendations to put the brakes on any slowdown in the housing and construction industries in Pennsylvania."

Even as Mr. Zubrow began preparing for the task, the Governor announced the final composition of the Commission on August 15. They are:

Chairman Sol E. Zubrow, Philadelphia; Chairman, ITB Corporation, Philadelphia.

John R. Bunting, Philadelphia; Chairman, First Pennsylvania Corporation.

Thomas Gallagher, Plymouth Meeting; Housing Director, United Auto Workers (UAW), Region 9.

Marvin Garfinkel, Philadelphia; Attorney.

W. Wilson Goode, Philadelphia; President, Philadelphia Council for Community Advancement.

J. Roger Glunt, Pittsburgh; home builder.

Gregor Meyer, Pittsburgh; President, Pennsylvania Savings and Loan League.

Nancy Neuman, Lewisburg; State Chairman, Committee on Human Resources, League of Women Voters.

Silas W. Pettit, Philadelphia; Director, Phillip Murray House, AF of L-CIO.

Hon. L. Eugene Smith (R.-Jefferson County); Chairman, House of Representatives Committee on Business and Commerce.

Hon. Edward P. Zemprelli (D.-Allegheny County); Chairman, Senate Banking Committee.

The Commission conducted its organizational meeting in Harrisburg on August 23. Governor Shapp addressed the Commission and divided the task into three parts:

1. Within forty-five days, to report back to him with recommendations as to the maximum interest rate ceiling required to cope with the swiftly changing money market.

2. To analyze mortgage loan conditions in all parts of Pennsylvania and to develop a long range solution to help avoid a future mortgage interest rate crisis.

3. Within ninety days, to thoroughly study and carefully analyze the interest rate structure and usury laws of the Commonwealth in order to develop a coherent policy to help avoid future crises.

GOALS AND OBJECTIVES OF THE COMMISSION

The Commission established the following goals and objectives for the study and investigation of the Governor's charges:

1. To facilitate the obtaining of mortgage loans so that consumers can buy and sell homes.
2. To assure adequate legal protection of buyers and sellers in residential mortgage transactions.
3. To assure the continued viability of the home building and construction industries; to prevent the exacerbation of the housing shortage by the mortgage crisis.
4. To avoid additional unemployment and economic hardship for the thousands of Pennsylvania workers who depend upon the home building industry for their livelihood.
5. To protect the economic viability of the real estate industry, and the consumers, brokers, salesmen and others in related occupations.
6. To protect the ability of local savings and loan associations, banks and other mortgage lenders to continue making residential mortgage loans in Pennsylvania on a profitable basis.

The diverse backgrounds and viewpoints of the members of the Commission helped assure that its work would serve the broad public interest.

METHOD OF OPERATION OF THE COMMISSION

The Commission's assignment required that it (1) investigate the impact of Act 55 and the mortgage crisis across the State, and (2) evaluate all potential solutions to the problem.

A series of six public hearings were conducted across the State to hear directly from buyers and sellers of homes, lenders (savings and loan associations, commercial banks, mutual savings banks, insurance companies, etc.), builders, real estate agents and others. A total of 106 witnesses appeared at the public hearings, offered testimony, and answered questions. Many others mailed statements expressing their views to the Commission. These six public hearings produced 1,798 pages of transcripts which have been carefully studied by the Commission. During a three-week period in September, the public hearings were conducted in Wilkes-Barre (September 6), Philadelphia (September 13), Pittsburgh (September 14), Harrisburg (September 18), Williamsport (September 18), and Erie (September 25). The variety of witnesses and the scope of the substance of the testimony presented to the Commission was a truly representative sampling of views from citizens throughout the Commonwealth.

In addition to the public hearings, the resources of the executive branch of the Commonwealth were made available to the Commission. Alfred E. Judd, a research analyst in the Bureau of Policy Planning and Information of the Department of Community Affairs, was appointed Staff Director for the Commission. Martin Margolis, an economic advisor in the Office of State Planning and Development, was appointed staff economist. Secretary of Banking Carl K. Dellmuth, Secretary of Commerce Walter G. Arader, Secretary of Community Affairs William H. Wilcox, Director Joel Weisberg of the Bureau of Consumer Protection of the Department of Justice, Thomas Crandall of the Pennsylvania Legal Services Center, and Executive Director John McCoy of the Pennsylvania Housing Finance Agency were appointed advisors to the Commission. Their agencies provided valuable technical support and research materials.

In addition to the hearings and research, the Commission held seven formal meetings and many more informal meetings. Three subcommittees were formed to study economic indicators, housing, and legal and legislative needs. The research and study was comprehensive; the analysis, thorough; and the recommendations, fully explored, discussed and weighed.

APPENDIX B

ECONOMIC AND STATISTICAL BACKGROUND

Prepared for the Governor's Commission on Mortgage and Interest Rates

By the Office of State Planning and Development

Figure B - 1

Effects of Mortgage Rates on Cost of a Home

($25,000 Mortgage for 25 Years)

Mortgage Rate	7	7 1/2	8	8 1/2	9	9 1/2	10
Monthly Amortization per $1,000	7.07	7.39	7.72	8.06	8.40	8.74	9.09
Monthly Cost	176.75	184.75	193.00	201.50	210.00	218.50	227.25
Yearly Cost	2,121.00	2,217.00	2,316.00	2,418.00	2,520.00	2,622.00	2,727.00
Total Cost of Mortgage	53,025.00	55,425.00	57,900.00	60,450.00	63,000.00	65,550.00	68,175.00
Increase		2,400.00	2,475.00	2,550.00	2,550.00	2,550.00	2,625.00

Source: Office of State Planning and Development Calculations.

Figure B - 2

Effects of Mortgage Terms on Cost of a Home

($25,000 Mortgage at 8%)

Mortgage Maturity Term (years)	10	15	20	25	30	35	40
Monthly Amortization per $1,000	$12.14	9.56	8.37	7.72	7.34	7.11	6.95
Monthly Cost	$304	239	209	193	184	178	174
Yearly Cost	3,642	2,868	2,511	2,316	2,202	2,133	2,086
Total Cost of Mortgage	36,420	43,070	50,220	57,900	66,060	74,655	83,438
Increase over previous 5-year term	--	6,650	7,150	7,680	8,160	8,595	8,783
Increase over 20-year term	--	--	--	7,680	15,840	24,435	33,218

Figure B - 3

Building Permits for Residential Construction

Pennsylvania and Selected SMSA's

Total Housing Units

Year	Pennsylvania	Philadelphia	Pittsburgh	Harrisburg[1]	Wilkes-Barre[1]
1967	48,126	28,188	11,061	2,427	826
1968	46,939	28,248	10,691	2,240	1,500
1969	44,039	24,100	8,168	2,013	1,211
1970	41,185	23,657	8,199	2,492	1,143
1971	54,534	32,451	9,796	3,457	1,670
1972	58,272	36,086	11,109	2,492	
Jan.	3,319	1,569	631	363	1
Feb.	3,850	2,405	547	369	3
Mar.	4,506	2,356	930	127	8
Apr.	5,011	3,150	746	279	4
May	5,731	2,870	1,303	345	16
June	4,999	4,097	1,447	179	16
July	4,827	2,579	860	102	3
Aug.	6,187	4,252	1,489	136	
Sept.	4,375	2,487	609	54	1
Oct.	5,410	3,348	1,256	97	6
Nov.	5,048	3,350	562	61	7
Dec.	4,528	2,887	654	51	2
Jan-July	32,243				
1973					
Jan.	3,423	1,733	791	68	4
Feb.	4,423	2,140	707	101	3
Mar.	5,804	4,027	893	123	14
Apr.	5,589	2,513	1,106	76	5
May	4,828	2,588	591	75	5
June	6,107	3,685	1,046		
July	4,832p	2,476p	626p		
Jan-July	34,948				

Source: U.S. Department of Commerce, Monthly Construction Reports

1. Monthly figures for Harrisburg and Wilkes-Barre are based on partial reports.

p Preliminary

Figure B - 4

Loan Activity of Savings and Loans

(Millions of Dollars)

	U.S. I Purchases	U.S. II Closings	I ÷ II	Penna. II Purchases	Penna. V Closings	IV÷V	Relative Pa. to U.S.
1967				111.1	898.8	.123	
1968	--	--	--	---	---		
1969	2331	21169	.110	151.2	943.6	.160	1.454
1970	3745	20760	.180	344.4	954.7	.360	2.000
1971	7529	38341	.196	501.6	1704.4	.294	1.500
1972	10612	50024	.212	633.1	1986.1	.318	1.500
Jan	610	2560	.238	46.9	105.3	.445	1.870
Feb	875	2771	.316	53.4	100.5	.531	1.680
Mar	1004	3804	.264	75.4	143.6	.525	1.989
Apr	955	3715	.257	61.2	155.7	.393	1.529
May	897	4479	.200	53.2	174.2	.305	1.525
June	1009	5302	.190	60.0	228.5	.262	1.379
July	304	4450	.180	45.7	185.0	.247	1.372
Aug	956	5235	.182	44.7	203.9	.219	1.203
Sept	777	4564	.170	37.7	180.0	.209	1.229
Oct	807	4401	.183	47.7	170.9	.277	1.514
Nov	804	4276	.188	42.6	171.4	.248	1.319
Dec	1112	4468	.248	64.9	167.1	.388	1.565
1973							
Jan	774	3603	.214	60.8	135.9	.447	2.088
Feb	787	3611	.217	71.9	137.6	.522	2.405
Mar	975	4857	.200	71.4	200.6	.355	2.305
Apr	750	4856	.154	54.8	187.5	.292	1.775
May	691	5289	.130	54.3	202.1	.268	2.061
June 1/	653	5584	.117	44.0	244.5	.179	1.530
July 1/	517	4890	.106	52.0	200.0	.260	2.453
Jan/Jul 72	6,154	27081		395.8	1092.8		
Jan/Jul 73	5,147	32690		409.2	1308.2		
% Change	-16.4	+20.7		- 3.4	+19.7		

Source: Federal Home Loan Bank Board OSPD Calculations

1/ Preliminary Data

Note: Closings + Purchase = Total Activity. Relative = Pa. ÷ U.S.
Relative > 1 means greater share are purchases in Pa. than in U.S.

Figure B - 5

Monthly Commitments Made by Savings and Loan Associations

	United States		Pennsylvania		
Year and Month	Millions of $	Change Over Last Year	Millions of $	Change Over Last Year	Change Over Last Month
1972					
Jan.	2508		142.8		
Feb.	3354		166.2		+16.4
Mar.	4110		197.4		+18.8
Apr.	4047		189.9		- 3.8
May	4545		190.7		+ .4
June	4198		181.5		- 4.8
July	4025		157.0		-13.5
Aug.	4106		161.8		+ 3.1
Sept.	3767		153.0		- 5.4
Oct.	3731		144.0		- 5.9
Nov.	4434		101.7		+12.3
Dec.	3150		117.7		-27.2
1973					
Jan.	4459	+77.8	227.4	+59.2	+93.2
Feb.	4619	+37.7	368.4	+121.7	+62.0
Mar.	5815	+41.5	179.9	- 8.9	-51.2
Apr.	5415	+33.8	266.0	+40.1	+47.7
May	5588	+22.9	330.7	+73.4	+24.3
June	5353	+27.5	266.8	+47.0	-19.3
July		-25.0	190.0	+21.0	-28.8
Aug.			155.1	- 4.1	-18.4
Jan.-Aug.			1944.2	+40.2	

Source: Federal Home Loan Bank Board
and Office of State Planning and Development estimates

Figure B - 6

Residential Loans Held by Lending Institutions
(Millions of Dollars)

United States

	1967	%	1969	1970	1971	1972	1973	%
Commercial Banks	37,642	13.4	44,573	45,640	52,004	62,782	65,192	15.1
Mutual Savings Banks	44,641	15.9	48,682	49,937	53,027	57,140	58,169	13.4
Life Insurance Co's.	32,512	11.6	31,398	31,192	26,684	21,591	14,490	3.4
Savings & Loans	121,805	43.5	140,347	150,331	174,385	206,387	219,449	50.7
Others	43,400	15.6	54,000	61,100	68,600	74,600	75,700	17.5
TOTAL	280,000	100.0	319,000	338,200	374,700	422,500	433,000	100.0

Pennsylvania

Commercial Banks	2,517		2,914	3,142	3,591	4,314		
Mutual Savings Banks [1]	2,528		2,698	2,965	3,222	3,362		
Life Insurance Co's.								
Savings & Loans	5,304		6,206	7,745	7,926	9,272	9,585	
Others								
TOTAL								

[1] Total Real Estate Loans

Source: Federal Reserve Bulletin, July, 1973, OSPD calculations; Federal Reserve Bank, Federal Home Loan Assn.

Figure B - 7

Assets of Lending Institutions
(Millions of Dollars)
United States

	1967[1]	%	1969[1]	1970[1]	1971[1]	1972[1]	1973[2]	%
Commercial Banks	451,012	53.8	530,665	576,242	640,255	739,033	739,033	54.7
Mutual Banks	66,365	7.9	74,144	78,995	89,369	100,593	103,518	7.8
Life Insurance Co's.	177,361	21.2	197,208	207,254	222,102	239,407	243,078	18.3
Savings & Loans	143,534	17.1	162,149	176,183	206,303	243,571	254,382	19.2
TOTAL	838,272	100.0	964,166	1,038,674	1,158,029	1,322,604	1,326,988	100.0

Pennsylvania

	1967[1]	%	1969[1]	1970[1]	1971[1]	1972[1]	1973[2]	%
Commercial Banks	26,971	-	31,517	34,261	37,769	43,626	-	-
Mutual Banks	3,792	-	4,124	4,668	5,419	5,934	-	-
Life Insurance Co's.	-	-	-	-	-	-	-	-
Savings & Loans	6,182	-	7,134	7,835	9,284	10,683	11,226	-

Source: Federal Reserve Bulletin, July, 1973. OSPD calculations.

[1] December 31

[2] March, 1973

Figure B - 8

Residential Mortgages as Proportion of Assets - All Lenders

(Millions of Dollars)

United States

	1967	1969	1970	1971	1972 [1]	1973 [2]
Commercial Banks	.084	.084	.079	.081	.085	.090
Mutual Banks	.758	.752	.731	.694	.671	.666
Life Insurance Co's.	.183	.159	.151	.120	.090	.060
Savings and Loans	.849	.865	.853	.845	.847	.838

Pennsylvania

	1967	1969	1970	1971	1972 [1]	1973 [2]
Commercial Banks	.093	.092	.092	.095	.099	
Mutual Banks [3]	.667	.654	.635	.595	.573	
Life Insurance Co's.						
Savings and Loans	.857	.869	----	.853	.859	.853

Source: Office of State Planning and Development calculations.

[1] December 31.

[2] March 31, 1973

[3] All Real Estate Loans

Figure B - 10

Net Flow of Savings - Savings and Loans

(Millions of Dollars)

	United States				Pennsylvania			
Year And Month	Net In	% Change Over Previous	Savings Capital	% Change Over Previous	Net In	% Change Over Previous	Savings Capital	% Change Over Previous
1967			124493		426.7		5342	
1968								
1969	4079		135538	+ 8.8	233.2	- 45.3	6048	+13.2
1970	11018	+170.1	146404	+ 8.0	562.0	+140.9	6576	+ 8.7
1971	28250	+156.3	174472	+19.1	1184.6	+110.7	7782	+18.3
1972	32928	+ 16.5	207305	+18.8	1257.6	+ 6.1	9048	+16.2
Jan.	3176		177738		121.2		7907	
Feb.	2733		180556		110.2		8018	
Mar.	4160		184843		153.2		8174	
Apr.	1721		186617		60.6		8234	
May	2144		188826		79.6		8314	
June	3629		192564		185.3		8499	
July	2223		194770		64.6		8564	
Aug.	1748		196571		41.8		8605	
Sept.	3296		199966		100.7		8706	
Oct.	1997		202012		69.3		8775	
Nov.	1822		203889		74.2		8851	
Dec.	3316		207305		196.9		9048	
1973								
Jan.	3188	+ 6.6	210589	+18.5	114.2	- 5.8	9162	+14.2
Feb.	1848	- 32.4	212493	+17.7	81.9	- 25.6	9244	+13.1
Mar.	3594	- 13.6	216195	+17.0	133.7	- 12.7	9378	+13.9
Apr.	807	- 53.1	217026	+16.3	28.0	- 53.8	9406	+13.1
May	1824	- 14.9	218906	+15.9	74.4	- 6.5	9470	+13.9
June	3180	- 12.4	215422	+11.9	16.1	- 91.3	9642	+13.5
July*	-216	-109.7	215206	+10.5	-48.0	-173.8	9594	+12.0
Aug.*	-900	-154.8			-115.0	-375.1		
Change Jan-Aug. 1972	21525				816.5			
Change Jan-Aug. 1973	13325	- 38.1			430.2	- 47.3		
Change July 1972-73			20436	+10.5			1030	+12.0

Source: Federal Home Loan Bank Board
Office of State Planning and Development calculations
Note: Net change = new savings + interest
*: Preliminary

Figure B - 11

Deposits of Pennsylvania Commercial Banks
(Millions of Dollars)

	1967	1969	1970	1971	1972[1]
Demand	11,359	12,899	13,645	13,793	13,567
Time	12,292	13,111	15,178	17,640	19,063
Total	23,651	26,011	28,823	31,433	32,630
% Change over previous		10.0%	10.8%	9.1%	7.6%

[1] June 30, 1972

[2] Full year estimate based on 6 months activity

Figure B - 12

RELATION BETWEEN LONG TERM SECURITY YIELDS AND MORTGAGE RATES

		Bond Yields			Mortgage Rates		Spread		
		U.S. Gov't.	Aaa State & Local	Aaa Corporate	New Homes	Existing Homes	U.S. Gov't.	Aaa State & Local	Aaa Corporate
1966		4.66	3.67	5.13					
	Jan	4.43	3.40	4.74	5.56	5.67	124	227	93
	Feb	4.61	3.48	4.78	5.59	5.78	117	230	100
	Mar	4.63	3.55	4.92	5.71	5.79	116	224	87
	Apr	4.55	3.46	4.96	5.76	5.82	127	236	86
	May	4.57	3.53	4.98	5.94	5.92	135	239	94
	June	4.63	3.60	5.07	5.98	5.94	131	234	87
	July	4.74	3.77	5.16	6.04	6.05	131	228	89
	Aug	4.80	3.91	5.31	6.04	6.07	127	216	76
	Sept	4.79	3.93	5.49	6.05	6.11	132	218	62
	Oct	4.70	3.82	5.41	6.08	6.11	141	229	70
	Nov	4.74	3.78	5.35	6.31	6.06	132	228	71
	Dec	4.65	3.79	5.39	6.10	6.51	186	272	112
1967		4.85	3.74	5.51					
1968		5.25	4.20	6.18					
1969		6.10	5.45	7.03					
1970		6.59	6.12	8.04					
	Jan	6.86	6.38	7.91	7.03	7.18	32	80	-73
	Feb	6.44	6.19	7.93	7.03	7.20	76	101	-73
	Mar	6.39	5.81	7.84	7.12	7.34	95	153	-50
	Apr	6.53	6.24	7.83	6.95	7.29	76	105	-54
	May	6.94	6.70	8.11	7.41	7.36	42	66	-75
	June	6.99	6.81	8.48	7.39	7.44	45	63	-104
	July	6.57	6.40	8.44	7.54	7.61	104	121	-83
	Aug	6.75	5.96	8.13	8.27	8.36	161	240	23
	Sept	6.63	5.90	8.09	8.20	8.61	198	271	52
	Oct	6.59	6.07	8.03	8.21	8.44	185	237	41
	Nov	6.24	5.79	8.05	8.27	8.49	225	270	44
	Dec	5.97	5.21	7.64	8.30	8.49	252	328	85
1971		5.74	5.22	7.39					
1972		5.63	5.04	7.21					
	Jan	5.62	4.84	7.19	7.45	7.62	200	278	43
	Feb	5.67	5.01	7.27	7.38	7.63	196	262	36
	Mar	5.66	4.99	7.24	7.29	7.55	189	256	31
	Apr	5.74	5.16	7.30	7.42	7.53	179	237	23
	May	5.64	5.09	7.30	7.30	7.56	192	247	26
	June	5.59	5.07	7.23	7.39	7.50	191	243	27

MORTGAGE RATES AND LONG TERM SECURITIES YIELDS

Figure B - 12

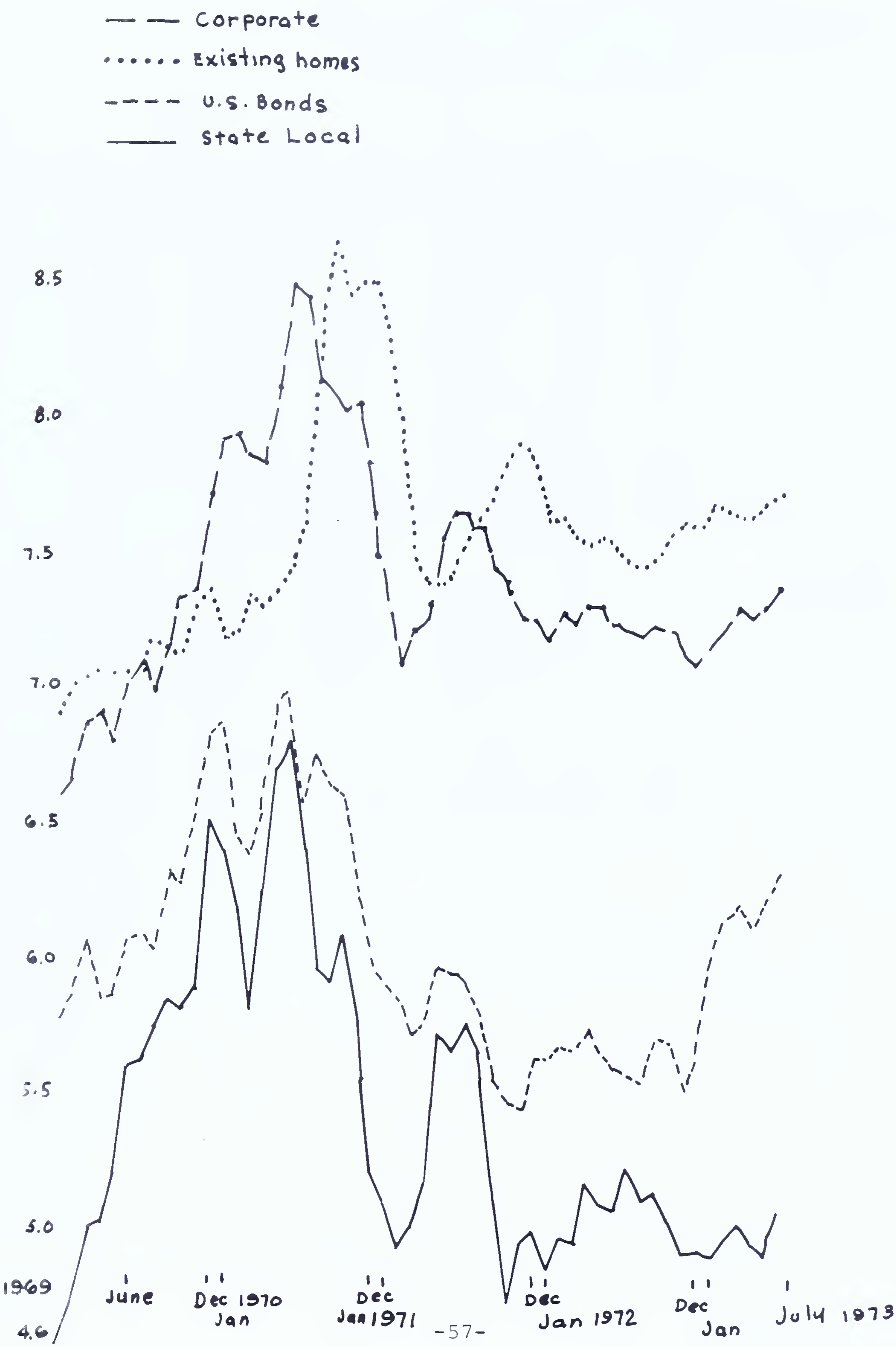


Figure B - 13

MORTGAGE TERMS OF ALL LENDERS FOR PREVIOUSLY OCCUPIED HOMES -
U. S. AND PHILADELPHIA SMSA
(Monthly, January 1969-July 1973)

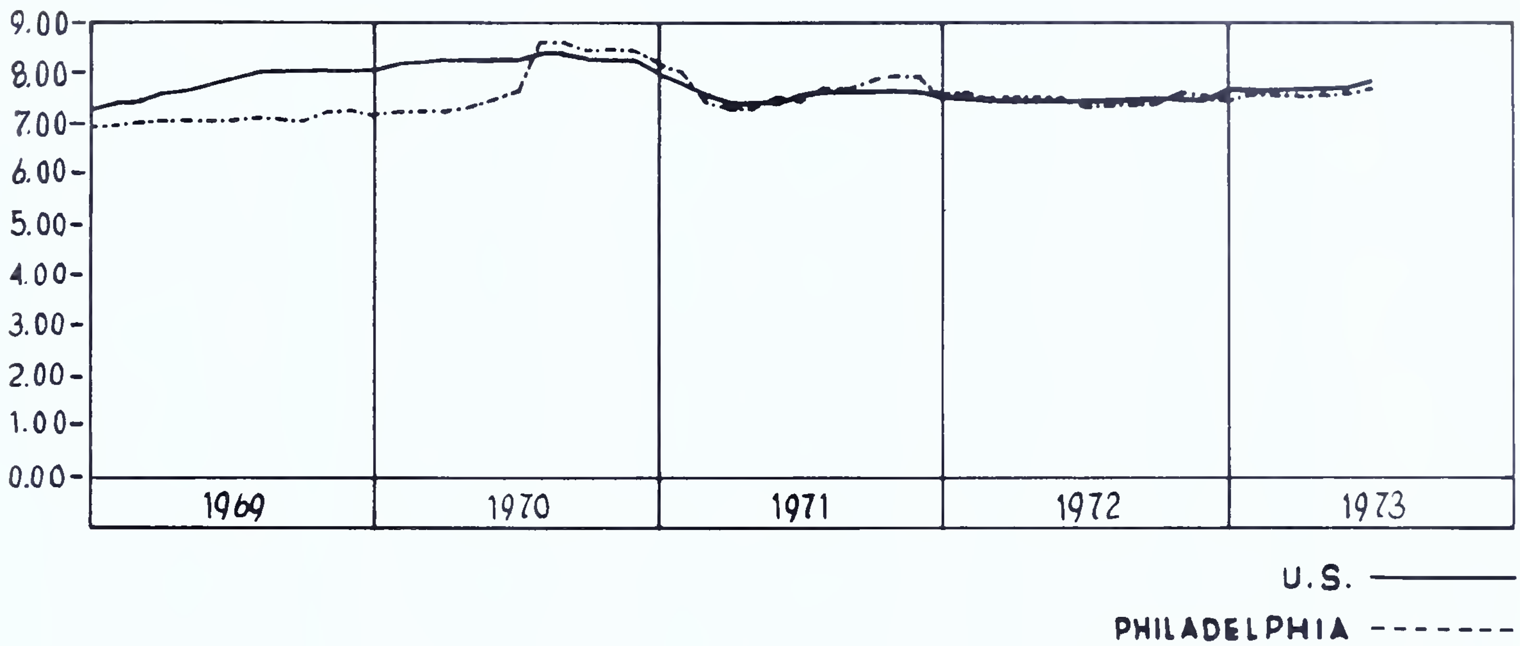


Figure B - 14

MORTGAGE TERMS OF ALL LENDERS FOR NEW SINGLE FAMILY HOMES -
U. S. AND PHILADELPHIA SMSA
(Monthly, January 1969-July 1973)

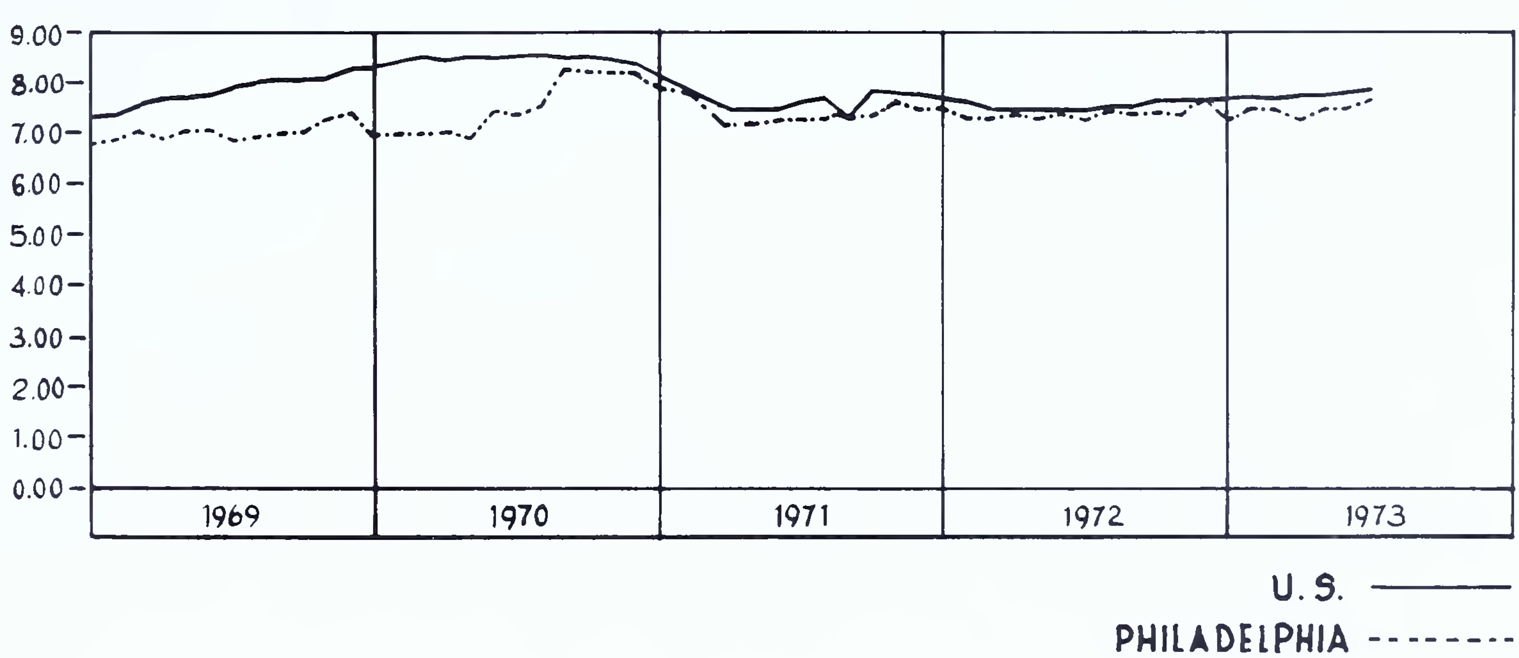


Figure B - 15

MORTGAGE TERMS, ALL LENDERS FOR PREVIOUSLY OCCUPIED HOMES, U.S. AND PHILADELPHIA SMSA

		Effective Rate			Term to Maturity (years)			Loan to Price Ratio (%)		
		U.S.	Phila.	Difference X 100	U. S.	Phila.	Difference	U.S.	Phila.	Difference
1969	Jan	7.32	6.88	-44.0	22.8	21.2	- 1.6	72.6	68.5	- 4.1
	Feb	7.42	6.99	-43.0	22.9	21.8	- 1.1	72.8	69.7	- 3.1
	Mar	7.49	7.02	-47.0	23.0	21.8	- 1.2	72.7	68.3	- 4.4
	Apr	7.60	7.06	-54.0	23.0	21.7	- 1.3	71.8	67.4	- 4.4
	May	7.68	7.04	-64.0	22.7	22.0	- .7	71.9	67.1	- 4.8
	June	7.79	7.04	-75.0	22.8	21.9	- .9	71.4	68.4	- 3.0
	July	7.94	7.06	-88.0	22.8	21.7	- 1.1	71.7	66.2	- 5.5
	Aug	8.05	7.15	-90.0	22.6	21.7	- .9	71.2	65.6	- 5.6
	Sept	8.08	7.14	-94.0	22.2	21.5	- .7	70.7	67.2	- 3.5
	Oct	8.13	7.12	-101.0	22.2	21.6	- .6	70.2	64.9	- 5.3
	Nov	8.15	7.29	-86.0	22.6	21.2	- 1.4	70.4	66.0	- 4.4
	Dec	8.24	7.36	-88.0	22.9	21.3	- 1.6	70.6	64.7	- 5.9
1970	Jan	8.29	7.18	-111.0	22.4	21.8	- .6	70.3	65.7	- 4.6
	Feb	8.41	7.20	-121.0	22.4	22.0	- .4	70.2	64.9	- 5.3
	Mar	8.43	7.34	-109.0	22.6	21.7	- .9	70.4	63.6	- 6.8
	Apr	8.34	7.29	-105.0	22.7	21.8	- .9	70.2	62.4	- 7.8
	May	8.34	7.36	- 98.0	22.8	21.4	- 1.4	70.3	64.1	- 6.2
	June	8.36	7.44	- 92.0	23.0	21.2	- 1.8	71.5	66.1	- 5.4
	July	8.37	7.61	- 76.0	23.1	21.5	- 1.6	71.5	63.8	- 7.7
	Aug	8.41	8.36	- 5.0	23.1	21.5	- 1.6	71.7	66.7	- 4.0
	Sept	8.42	8.61	+ 19.0	22.8	21.1	- 1.7	71.7	65.7	- 6.0
	Oct	8.35	8.44	+ 9.0	22.8	20.9	- 1.9	71.5	64.5	- 7.0
	Nov	8.32	8.49	+ 17.0	22.8	21.8	- 1.0	71.5	67.6	- 3.9
	Dec	8.26	8.49	+ 23.0	23.3	20.9	- 2.4	71.9	65.3	- 6.6
1971	Jan	8.08	8.28	+ 20.0	23.5	21.8	- 1.7	72.5	65.2	- 7.3
	Feb	7.80	7.94	+ 14.0	24.0	22.4	- 1.6	73.1	67.7	- 5.4
	Mar	7.60	7.51	- 9.0	24.1	22.7	- 1.4	73.5	66.2	- 7.3
	Apr	7.47	7.38	- 9.0	24.2	23.3	- .9	73.6	67.5	- 6.1
	May	7.45	7.38	- 7.0	24.0	22.6	- 1.4	73.2	67.0	- 6.2
	June	7.50	7.42	- 8.0	24.3	23.6	- .7	73.9	68.7	- 5.2
	July	7.63	7.54	- 9.0	24.2	23.3	- .9	74.5	68.7	- 5.8

Figure B - 15 Continued

MORTGAGE TERMS, ALL LENDERS FOR SINGLE FAMILY, PREVIOUSLY OCCUPIED HOMES
U.S. AND PHILADELPHIA SMSA

		Effective Rate			Term to Maturity (years)			Loan to Price Ratio (%)		
		U.S.	Phila.	Difference X 100	U.S.	Phila.	Difference	U.S.	Phila.	Difference
1971	Aug	7.71	7.64	- 7.0	24.5	23.8	- .7	74.2	69.8	-4.4
	Sept	7.76	7.69	- 7.0	24.2	24.2	0	74.5	71.1	-3.4
	Oct	7.75	7.86	+11.0	24.1	22.5	-1.6	74.2	70.8	-3.4
	Nov	7.69	7.90	+21.0	24.3	22.5	-1.8	74.6	71.2	-3.4
	Dec	7.64	7.80	+16.0	24.6	22.3	-2.3	74.6	72.5	-2.1
1972	Jan	7.58	7.62	+ 4.0	24.9	23.2	-1.7	74.7	56.8	-17.9
	Feb	7.48	7.63	+15.0	25.4	23.0	-2.4	75.8	71.8	-4.0
	Mar	7.44	7.55	+11.0	25.1	23.0	-2.1	75.6	71.9	-3.7
	Apr	7.42	7.53	+11.0	25.2	23.6	-1.6	75.3	71.4	-3.9
	May	7.46	7.56	+10.0	25.2	23.1	-2.1	75.4	70.9	-4.5
	June	7.49	7.50	+ 1.0	25.5	23.6	-1.9	76.1	70.2	-5.9
	July	7.50	7.46	- 4.0	25.6	23.5	-2.1	76.2	68.9	-7.3
	Aug	7.52	7.45	- 7.0	26.3	23.8	-2.5	76.5	69.8	-6.7
	Sept	7.55	7.48	- 7.0	26.2	23.7	-2.5	76.5	70.7	-5.8
	Oct	7.57	7.56	- 1.0	26.1	22.8	-3.3	76.3	70.2	-6.1
	Nov	7.57	7.62	+ 5.0	26.2	22.8	-3.4	76.7	71.3	-5.4
	Dec.	7.59	7.60	+ 1.0	26.4	23.2	-3.2	76.8	70.9	-5.9
1973	Jan	7.68	7.68	0	23.2	22.4	- .8	75.2	74.2	-1.0
	Feb	7.72	7.66	- 6.0	23.6	22.8	- .8	77.5	73.3	-4.2
	Mar	7.69	7.64	- 5.0	23.3	22.3	-1.0	76.9	72.6	-4.3
	Apr	7.70	7.64	- 6.0	23.9	22.3	-1.6	77.3	71.6	-5.7
	May	7.77	7.69	- 8.0	23.5	22.1	-1.4	77.5	73.7	-3.8
	June	7.79	7.71	- 8.0	23.4	22.2	-1.2	75.9	74.1	-1.8
	July p	7.84	7.74	-10.0	24.2	22.5	-1.7	75.5		-2.3

p = preliminary

Source: Federal Home Loan Bank Board; OSPD calculation

Figure B - 16

MORTGAGE TERMS, ALL LENDERS FOR SINGLE FAMILY, NEW HOMES, U.S. AND PHILADELPHIA SMSA

	Effective Rate			Term to Maturity (years)			Loan to Price Ratio (%)		
	U. S.	Phila.	Difference times 100	U. S.	Phila.	Difference	U. S.	Phila.	Difference
1969 Jan	7.30	6.81	- 49	25.6	24.4	- 1.2	73.6	69.8	-3.8
Feb	7.39	6.87	- 52	25.6	24.2	- 1.4	73.3	65.0	-8.3
Mar	7.47	7.01	- 46	25.8	24.0	- 1.8	73.8	66.8	-7.0
Apr	7.62	6.92	- 70	25.4	23.5	- 1.9	72.6	66.1	-6.5
May	7.65	7.07	- 58	25.8	24.2	- 1.6	73.2	68.6	-4.6
June	7.76	7.11	- 65	25.6	23.9	- 1.7	73.0	63.9	-9.1
July	7.91	6.88	-103	25.5	23.4	- 2.1	72.0	64.3	-7.7
Aug	8.00	6.94	-106	25.2	23.9	- 1.3	72.3	67.7	-4.6
Sep	8.05	7.00	-105	25.3	24.1	- 1.2	72.4	66.6	-5.8
Oct	8.13	7.06	-107	25.3	24.0	- 1.3	72.9	66.2	-6.7
Nov	8.13	7.33	- 80	25.3	24.1	- 1.2	72.8	64.8	-8.0
Dec	8.25	7.47	- 78	25.4	23.9	- 1.5	71.9	62.1	-9.8
1970 Jan	8.34	7.03	-131	25.0	23.9	- 1.1	69.3	66.3	-3.0
Feb	8.41	7.03	-138	25.2	23.8	- 1.4	71.8	61.2	-10.6
Mar	8.47	7.12	-135	25.0	22.9	- 2.1	71.1	64.7	-6.4
Apr	8.41	6.95	-146	24.8	23.0	- 1.8	71.3	63.2	-8.1
May	8.45	7.41	-104	25.3	23.7	- 1.6	71.7	63.1	-8.6
Jun	8.48	7.39	-109	25.1	24.0	- 1.1	71.3	64.9	-6.4
July	8.49	7.54	- 95	25.1	23.3	- 1.8	71.5	62.1	-9.4
Aug	8.52	8.27	- 25	24.8	22.5	- 2.3	71.6	62.7	-8.9
Sep	8.48	8.20	- 28	25.2	22.8	- 2.4	72.7	67.3	-5.4
Oct	8.51	8.21	- 30	25.1	23.0	- 2.1	72.4	63.9	-8.5
Nov	8.43	8.27	- 16	25.3	23.7	- 1.6	72.1	65.9	-6.2
Dec	8.38	8.30	- 8	25.8	23.6	- 2.2	73.8	69.1	-4.7
1971 Jan	8.18	8.07	- 11	25.8	24.1	- 1.7	73.3	64.9	-8.4
Feb	7.91	7.81	- 10	26.2	23.8	- 2.4	73.9	65.0	-8.9
Mar	7.66	7.35	- 31	25.9	24.4	- 1.5	73.7	64.4	-9.3
Apr	7.49	7.19	- 30	26.3	24.4	- 1.9	73.6	61.1	-12.5
May	7.47	7.26	- 21	26.1	24.6	- 1.5	74.0	61.9	-12.1
June	7.50	7.30	- 20	26.3	24.9	- 1.4	73.7	58.2	-15.5
July	7.66	7.34	- 32	26.3	24.9	- 1.4	74.5	63.8	-10.7
Aug	7.74	7.43	- 31	26.2	24.3	- 1.9	73.9	66.6	- 7.3
Sept	7.83	7.47	- 36	25.8	24.7	- 1.1	75.3	67.0	- 8.3
Oct	7.84	7.62	- 22	26.4	24.9	- 1.5	75.5	66.8	- 8.7
Nov	7.79	7.56	- 23	26.7	24.7	- 2.0	75.4	68.8	- 6.6
Dec	7.77	7.54	- 23	26.6	24.7	- 1.9	74.5	69.3	- 5.2

Figure B - 16 Continued

MORTGAGE TERMS, ALL LENDERS FOR SINGLE FAMILY, NEW HOMES,
U.S. AND PHILADELPHIA SMSA

		Effective Rate (%)			Term to Maturity (Years)			Loan to Price Ratio (%)		
		U. S.	Phila.	Difference times 100	U. S.	Phila.	Difference	U. S.	Phila.	Difference
1972	Jan	7.78	7.45	- 33	26.5	24.5	- 2.0	75.0	49.9	- 25.1
	Feb	7.61	7.38	- 23	27.0	24.8	- 2.2	76.5	69.9	- 6.6
	Mar	7.52	7.29	- 23	27.2	25.2	- 2.0	76.2	65.0	- 11.2
	Apr	7.51	7.42	- 9	27.2	24.9	- 2.3	76.0	70.3	- 5.7
	May	7.53	7.30	- 23	27.2	23.8	- 3.4	76.2	62.2	- 14.0
	June	7.55	7.39	- 16	27.2	24.5	- 2.7	76.5	67.4	- 9.1
	July	7.56	7.29	- 27	27.2	24.0	- 3.2	77.0	62.5	- 14.5
	Aug	7.59	7.45	- 14	27.5	25.1	- 2.4	77.5	69.5	- 8.0
	Sept	7.57	7.40	- 17	27.3	25.0	- 2.3	77.5	67.6	- 9.9
	Oct	7.62	7.41	- 21	27.2	25.4	- 1.8	77.3	68.7	- 8.6
	Nov	7.64	7.38	- 26	27.5	24.9	- 2.6	77.4	66.9	- 10.5
	Dec	7.66	7.70	+ 6	27.5	23.9	- 3.6	78.0	73.3	- 4.7
1973	Jan	7.68	7.43	- 25	25.7	23.4	- 2.3	76.6	70.5	- 6.1
	Feb	7.70	7.58	- 12	26.8	24.8	- 2.0	78.6	74.2	- 4.4
	Mar	7.68	7.51	- 17	26.6	25.1	- 1.5	78.4	72.4	- 6.0
	Apr	7.71	7.33	- 18	26.6	24.7	- 1.9	78.2	69.8	- 8.4
	May	7.71	7.51	- 20	25.9	25.0	- .9	77.7	70.6	- 7.1
	June	7.79	7.56	- 23	26.3	25.6	- .7	78.0	71.9	- 6.1
	July 1/	7.87	7.62	- 25	26.6	25.1	- 1.5	78.2	72.5	- 5.7
	Aug 1/	7.94	7.63	- 31	26.9	25.5	- 1.4	76.9	72.4	- 4.5

Figure B - 17

<u>Comparison of Mortgage Rates of Pennsylvania and Selected States</u>

NOTE CONCERNING THE TABLE ON THE FOLLOWING PAGE:

The difference column shows the average Pennsylvania mortgage interest rate minus the average mortgage interest rate in the other eight states being compared.

Thus, a positive difference means that the average mortgage interest rate in Pennsylvania was higher than the average mortgage interest rate in the other state; conversely, a negative difference means that the other state had a higher average mortgage interest rate than Pennsylvania.

The numbers in the difference column are expressed in basis points, which are hundredths of one percent. Thus, 25 basis points is the same as ¼ of 1%.

Figure B - 17

Mortgage Rates of Pennsylvania and Selected States

		Pennsylvania	New York		Ohio	
Interest Ceiling:		8%	7.5%		8%	
		Rate	Rate	Diff.	Rate	Diff.
1970	January	7.18	7.48	- 30	8.20	- 102
	February	7.20	7.53	- 33	8.36	- 116
	March	7.34	7.56	- 22	8.31	- 97
	April	7.29	7.51	- 22	8.22	- 93
	May	7.36	7.54	- 18	8.20	- 84
	June	7.44	7.53	- 9	8.16	- 72
	July	7.61				
	August	8.36				
	September	8.61	7.35	+126		
	October	8.44	7.51	+ 93		
	November	8.49	7.56	+ 93		
	December	8.48	7.53	+ 95		
1971	January	8.28	7.56	+ 56	7.80	+ 48
	February	7.94	7.49	+ 45	7.62	+ 32
	March	7.51	7.31	+ 20	7.47	+ 4
	April	7.38	7.28	+ 10	7.18	+ 20
	May	7.38	7.27	+ 11	7.16	+ 22
	June	7.42	7.29	+ 13	-	
	July	7.54	7.34	+ 20		
	August	7.64	7.49	+ 15		
	September	7.69	7.42	+ 27	7.37	+ 32
	October	7.86	7.42	+ 44	7.36	+ 50
	November	7.90	7.36	+ 54	7.35	+ 55
	December	7.80	7.33	+ 47	7.31	+ 49
1972	January	7.62	7.25	+ 37	7.28	+ 34
	February	7.63	7.24	+ 39	7.19	+ 44
	March	7.55			7.14	+ 41
	April	7.53	7.22	+ 31	7.08	+ 45
	May	7.56	7.22	+ 34	7.09	+ 47
	June	7.50	7.24	+ 26	7.15	+ 35
	July	7.46	7.23	+ 23	7.19	+ 27
	August	7.45	7.26	+ 19	7.16	+ 29
	September	7.48	7.29	+ 19	7.16	+ 37
	October	7.56	7.27	+ 29	7.21	+ 35
	November	7.62	7.35	+ 27	7.23	+ 39
	December	7.60	7.35	+ 25	7.23	+ 37
1973	January	7.68	7.41	+ 27	7.44	+ 24
	February	7.66	7.38	+ 28	7.28	+ 38
	March	7.64	7.37	+ 25	7.35	+ 29
	April	7.64	7.40	+ 24	7.38	+ 26
	May	7.69	7.43	+ 26	7.44	+ 25
	June	7.71	7.45	+ 26	7.46	+ 25
	July	7.74	7.44	+ 30	7.57	+ 17
Average 1971-1973				23.6		33.3

Mortgage Rates of Pennsylvania and Selected States

	Interest Ceiling	8% Maryland		8% Illinois		None Michigan	
		Rate	Diff.	Rate	Diff.	Rate	Diff.
1970	Jan.	7.91	- 73	8.05	- 87	8.62	- 144
	Feb.	7.91	- 71	8.13	- 93	8.82	- 162
	March	7.91	- 57	8.16	- 87	8.78	- 144
	April	7.93	- 64	8.14	- 85	8.66	- 137
	May	7.81	- 45	8.09	- 73	8.56	- 120
	June	7.93	- 49	8.13	- 69	8.60	- 116
	July						
	August						
	September						
	October						
	November						
	December						
1971	Jan.	7.81	+ 47	7.78	+ 50	8.31	- 3
	Feb.	7.37	+ 57	7.54	+ 40	7.94	0
	March	7.25	+ 26	7.42	+ 9	7.84	- 33
	April	7.03	+ 35	7.30	+ 8	7.74	- 36
	May	7.07	+ 31	7.29	+ 9	7.70	- 32
	June	7.15	+ 27	-	-	7.69	- 27
	July						
	August						
	September	7.63	+ 6	7.57	+ 12	7.99	- 30
	October	7.65	+ 21	7.47	+ 39	8.01	- 15
	November	7.59	+ 31	-	-	7.92	- 2
	December	7.54	+ 36	7.42	+ 38	7.88	- 8
1972	Jan.	7.40	+ 22	7.36	+ 26	7.83	- 21
	Feb.	7.36	+ 27	7.24	+ 39	7.61	+ 2
	March	7.17	+ 38	7.21	+ 34	7.62	- 7
	April	7.21	+ 32			7.61	- 8
	May	7.16	+ 40	7.19	+ 37	7.62	- 6
	June	7.15	+ 35	7.33	+ 17	7.69	- 19
	July	7.18	+ 28	7.20	+ 26	7.64	- 18
	August	7.29	+ 16	7.19	+ 26	7.64	- 19
	September	7.36	+ 12	7.23	+ 25	7.66	- 18
	October	7.45	+ 11	7.25	+ 31	7.65	- 9
	November	7.46	+ 16	7.23	+ 39	7.67	- 5
	December	7.51	+ 9	7.25	+ 35	7.71	- 11
1973	Jan.	7.67	+ 1	7.33	+ 35	7.61	+ 7
	February	7.67	- 1	7.36	+ 30	7.72	- 6
	March	7.57	+ 7	7.31	+ 33	7.70	- 6
	April	7.61	+ 3	7.33	+ 31	7.71	- 7
	May	7.69	0	7.40	+ 29	8.12	- 43
	June	7.79	- 8	7.44	+ 27	7.73	- 2
	July	7.67	+ 7	7.52	+ 22	7.76	- 2
Average 1971-1973			20.8		28.7		- 13.9

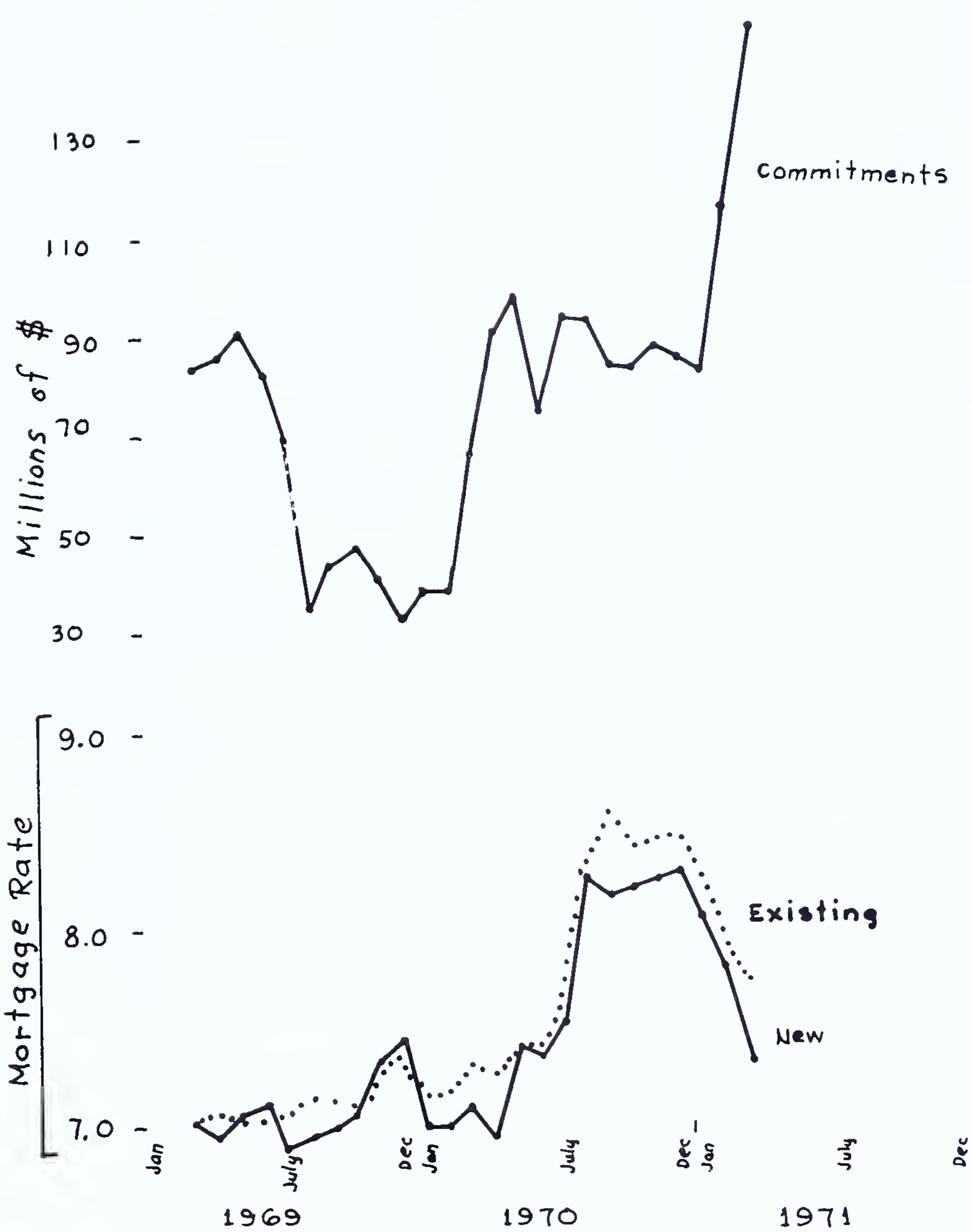
Mortgage Rates of Pennsylvania and Selected States

Interest Ceiling:		None		10%		10%	
		Massachusetts		California L.A.		Texas Dallas	
		Rate	Difference	Rate	Diff.	Rate	Diff.
1970	January	8.29	- 111	9.07	- 189	9.01	- 183
	February	8.50	- 130	9.41	- 221	9.15	- 195
	March	8.59	- 125	9.31	- 197	9.02	- 168
	April	8.37	- 108	9.19	- 190	9.28	- 199
	May	8.36	- 100	9.08	- 172	8.94	- 158
	June	8.45	- 101	8.93	- 149	8.98	- 154
	July						
	August						
	September						
	October						
	November						
	December						
1971	January	8.15	+ 13	8.24	+ 4	8.54	- 26
	February	7.95	- 1	7.82	+ 12	8.06	- 12
	March	7.56	- 5	7.54	- 3	7.78	- 27
	April	7.32	+ 6	7.45	- 7	7.72	- 34
	May	7.21	+ 17	7.42	- 4	7.78	- 40
	June	7.32	+ 10	7.61	- 19	7.70	- 28
	July						
	August						
	September	7.58	+ 11	7.94	- 25	8.07	- 88
	October	7.63	+ 23	7.80	+ 6	7.98	- 12
	November	7.41	+ 49	7.67	+ 23	8.07	- 17
	December	7.37	+ 43	7.58	+ 22	8.01	- 21
1972	January	7.43	+ 19	7.53	+ 9	7.79	- 17
	February	7.29	+ 34	7.38	+ 25	7.78	- 15
	March	7.22	+ 33	7.36	+ 19	7.57	- 2
	April	7.31	+ 22	7.37	+ 16	7.59	- 6
	May	7.26	+ 30	7.49	+ 7	7.68	- 12
	June	7.32	+ 18	7.61	- 11	7.70	- 20
	July	7.33	+ 13	7.53	- 7	7.68	- 22
	August	7.41	+ 4	7.52	- 7	7.70	- 25
	September	7.42	+ 6	7.56	- 8	7.95	- 47
	October	7.34	+ 22	7.55	+ 1	7.83	- 27
	November	7.37	+ 25	7.58	+ 4	7.83	- 21
	December	7.53	+ 7	7.54	+ 6	7.78	- 18
1973	January	7.28	+ 40	7.60	+ 8	8.06	- 38
	February	7.34	+ 32	7.68	- 2	7.84	- 18
	March	7.37	+ 27	7.64	0	7.84	- 20
	April	7.48	+ 16	7.69	- 5	7.95	- 31
	May	7.48	+ 21	7.87	- 18	7.99	- 30
	June	7.54	+ 17	7.85	- 14	8.04	- 33
	July	7.46	+ 28	8.01	- 27	8.13	- 39
Average, 1971-1973			+ 19.7		- 32.8		- 50.1

FIGURE B - 18

Pennsylvania Mortgage Rates And Loan Activity

DURING THE 1970 CRUNCH



Source: Federal Home Loan Bank Board Monthly Reports.

Figure B - 19

PENNSYLVANIA MORTGAGE RATES AND LOANS ACTIVITY
DURING THE 1970 CRUNCH

1969	Effective Rates (%) New Homes	Existing Homes	Commitments Made In Month (Millions of $)	Commitments Outstanding at End of Month (Millions of $)
Jan	6.81	6.88	60.7	173.2
Feb.	6.87	6.99	71.3	192.3
Mar.	7.01	7.02	84.1	221.2
Apr.	6.92	7.06	86.2	231.0
May	7.07	7.04	91.0	234.4
June	7.11	7.04	83.2	224.2
July	6.88	7.06	69.9	207.7
Aug.	6.94	7.15	35.2	186.2
Sep.	7.00	7.14	43.9	155.1
Oct.	7.06	7.12	47.4	145.2
Nov.	7.33	7.29	41.1	139.5
Dec.	7.47	7.36	33.3	126.2
1970				
Jan.	7.03	7.18	38.9	134.9
Feb.	7.03	7.20	39.8	141.6
Mar.	7.12	7.34	67.6	163.2
Apr.	6.95	7.29	91.9	206.1
May	7.41	7.36	99.9	241.8
June	7.39	7.44	76.0	242.2
July	7.54	7.61	95.2	270.1
Aug.	8.37	8.36	94.5	273.8
Sep.	8.20	8.61	84.7	248.7
Oct.	8.21	8.44	84.3	235.3
Nov.	8.27	8.49	89.0	242.6
Dec.	8.30	8.49	87.0	245.7

Figure B - 19

	Effective Rates (%)		Commitments Made in Month	Commitments Outstanding at End of Month
	New Homes	Existing Homes	(Millions of Dollars)	
1971				
Jan.	8.07	8.28	84.1	241.7
Feb.	7.81	7.94	115.6	297.8
Mar.	7.35	7.51	199.9	400.3

Source: All Data Federal Home Loan Bank Board, Monthly Reports.

APPENDIX C

Choosing an Index for a Flexible Ceiling

In its search for a standard on which to peg the flexible interest ceiling, the Commission examined a variety of indices of money market behavior. Standards suggested by various Commission members, by witnesses in public hearings, and in discussions with a number of economists were measured against the following principles:

1) They must reflect closely free market activity. They should not be subject to administrative whim or to the potential control of a small number of users or lenders of money.

2) They must be indicators of charges made on long term debt instruments. The Commission agreed early in its deliberations that the flexible ceiling should not be tied to such short term rates as the prime rate, the yield on U.S. treasury bills, the Federal Reserve Discount Rate, etc.

3) There must be a fairly constant relationship between the potential index and actual mortgage rates at all stages of the monetary cycle. In particular the indicator must be stable during both the peaks and troughs of the interest rate cycle.

4) The standard should be subject to regular observation and easily measurable by an index.

Given these basic principles, each standard was evaluated using a monthly index of its behavior compared with monthly indices of average effective residential mortgage rates for all lenders. The period analyzed was from 1965 through August 1973. Mortgage rate data for the United States was used for the primary comparison since in past years it has been relatively unconstrained by an interest ceiling. Each potential standard was also compared with data for the Philadelphia metropolitan area which was assumed to be a good estimate for effective rates for all of Pennsylvania and in any case is the only broad index of local mortgage rates available. The mortgage rate for loans closed for the purchase of existing homes was used since these rates tend to be somewhat higher than mortgage rates on new structures.

The following is a summary of analysis of each potential standard:

<u>Yield on Federal Housing Administration Insured Mortgages</u>. FHA-insured mortgages are regularly bought and sold in the secondary market, with the price of the market reflecting a yield on this type of long term instrument. Figure C - 1 shows the relationship between FHA yield and mortgage rates over the 1965-1973 period. The average spread between these yields and the U.S. mortgage rate was 9.80 basis points over this period with

the mortgage average higher than the FHA yield. However, this spread was not very stable, and during 1970 the FHA yield averaged 42 points above mortgages. Furthermore, the standard deviation over the entire nine years was 33.55--quite high compared with the average spread. There are several other problems with this standard. First, it is somewhat influenced by administrative decisions--for example, the decision several years ago to commit FHA resources more heavily to inner city housing. Second, the indices which monitor its behavior are sometimes not available for a given month.

<u>Federal National Mortgage Association Auction Yield</u>. Twice a month the FNMA auctions conventional mortgages on the secondary market. The average yield on these auctions is compiled by the FNMA and published by the Federal Reserve Board. As Figure C - 1 indicates, there are two problems with this series. Its spread varies quite substantially over time, and there is data available only for a rather limited period of time. Statistical analysis indicates a great deal of variation in the spread with an overall standard deviation of 30.83 compared with an overall average spread of 32.81. Furthermore, administrative decision can play a major role in determining the yield since the FNMA decides the size of its offerings at each auction depending on its judgments of market conditions now and in the future.

Corporate and Utility Bonds. We examined three different indices of corporate and public utility bonds. These are offered by various companies for sale at issue and are actively traded on the open market. Since the volume of trading is large and relatively constant, they should provide a stable indicator. Figure C - 2 indicates the relationship between an index of seasoned issue corporate Aaa bonds, an index of new issue Aaa utility bonds and mortgage interest rate averages over the 1965-1973 period. Figure C - 3 compares mortgage rates with a broad indicator of new issue Aaa corporate and utility bonds compiled by the U.S. Treasury and published by the Commerce Department in the monthly Business Conditions Digest. While the spread in recent years has been fairly constant among any of these indicators and mortgage rates, the same is not true over the longer period. Nor is it true during times of tight money. Figure C - 2 shows that both seasoned corporate and new issue utility bonds have shifted from a relatively lower yield to a relatively higher yield compared with mortgages. Figure C - 3 indicates the same is true for the new issue index. Furthermore, the new issue index, and to a lesser extent the others, both react in a more extreme fashion to tight money than do mortgage rates. This is probably due to the fact that more corporate and utility issues are callable in five to seven years, and thus in times of tight money tend to reflect the higher

short term interest rates rather than long term rates. Statistical analysis shows that seasoned corporates have moved from an average spread of 145 points under U.S. mortgage rates in 1965 to 44 points above them this year. Other corporate and utility indicators behave similarly. Furthermore, while the standard deviations based on yearly averages are quite small, the overall standard deviation for the 1965-1973 period is large compared with the overall average for the period, another indication that there have been long term changes in the spread between this index and mortgages.

<u>State and Local Bonds</u>. Figure C - 2 also indicates the relationship between an index of seasoned Aaa state and local bonds and mortgages. These bonds, issued in large amounts by non-federal units of government, are actively traded in bond markets. Statistical analysis reinforces the picture presented in the chart: these yields are relatively stable vis-a-vis mortgage rates over the entire period. The overall average spread for the entire period is 258.75 points. The standard deviation of 34.75 is small compared with this spread. However, there are two potential problems: 1) trading in these bonds has shifted in recent years from institutional investors to individuals and shifts of this short may have impact on the spread; 2) there is some possibility that these

bonds might lose their tax exemption at some time in the future, thus pushing their yields up substantially in the secondary market.

FHA Ceiling. The FHA sets a ceiling on the contract interest of mortgages it insures. This ceiling has varied between 5.25% and 8.50% in the last nine years. As Chart C - 4 indicates, the ceiling has almost always been below average mortgage rates for both the U.S. and Pennsylvania; and thus, without allowing points as the FHA does, such a ceiling is probably unrealistic. Furthermore, it is set by administrative decision, and thus is subject to change due to other than market factors.

U. S. Government Bonds. Figure C - 5 indicates the relationship between yield on long term U.S. Government bonds and mortgages over the 1965-1973 period. The bond index used is one compiled by the Federal Reserve Board based on over-the-counter bids on all issues due or callable in ten years or more. As the chart indicates, there is a wide but seemingly rather constant spread between bond and mortgage yields with the latter lagging the former by two to three months. Statistical analysis indicates an average overall spread of 176.36 basis points over the entire period with an overall standard deviation of 26.58 when compared with the U.S. mortgage rate. Unlike some of the other indicators evaluated, long term government bonds do not seem to react in extreme fashion to tight money squeezes such as those in 1966, 1970, and 1973. The

market for these bonds has great depth, with more than $20 billion of these issues outstanding at present. While administrative or legislative action might affect the market directly, this should be considered less likely than in some of the other markets. Finally, since a great deal of the debt will be refinanced as it matures, the bond market should maintain its present depth or increase in the future.

On balance, the yield on long term U.S. Government bonds seems the best choice as a standard for a flexible ceiling because of its stability and depth.

Figure C - 1

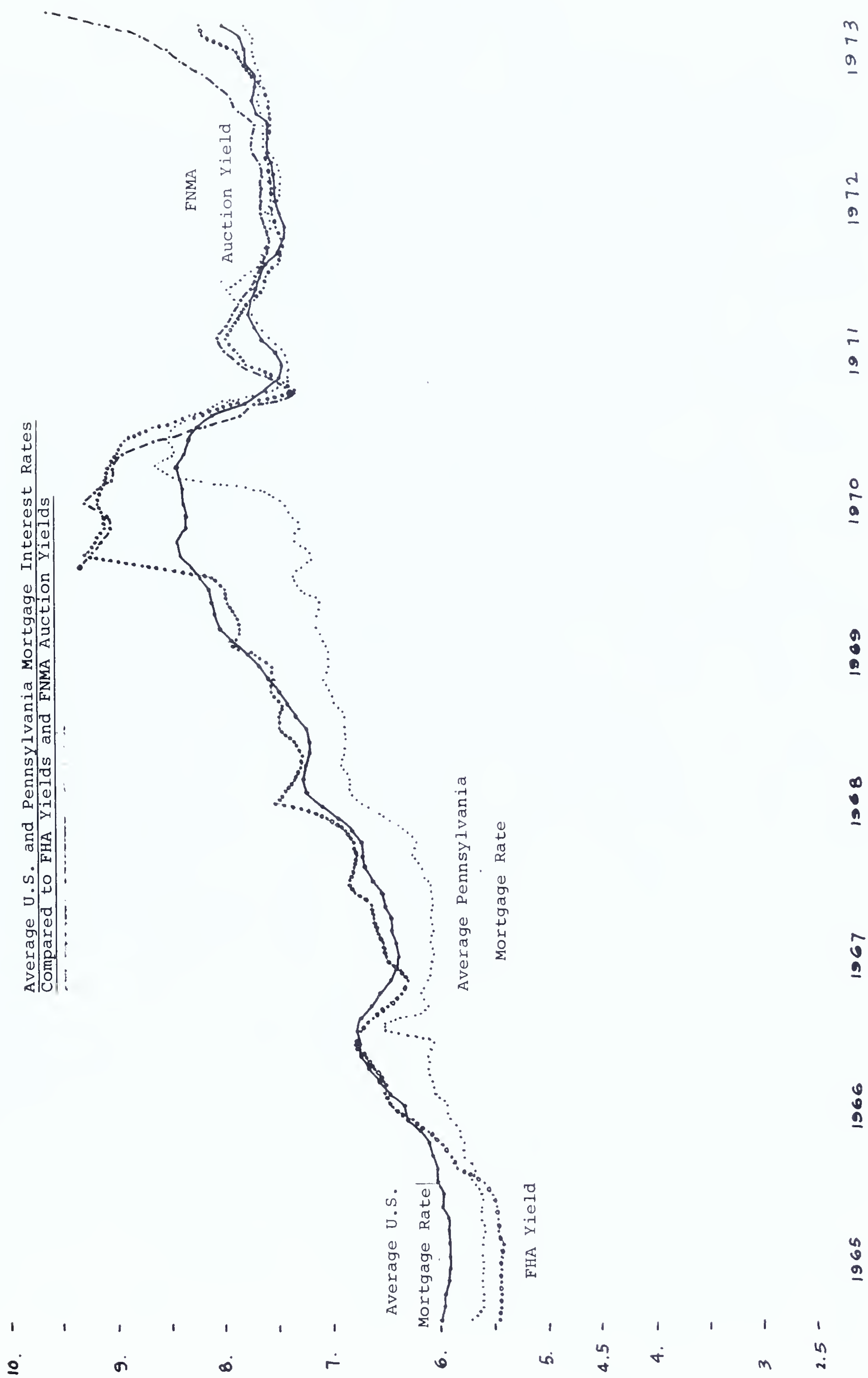

Average U.S. and Pennsylvania Mortgage Interest Rates
Compared to FHA Yields and FNMA Auction Yields
FNMA
Auction Yield
Average Pennsylvania
Mortgage Rate
Average U.S.
Mortgage Rate
FHA Yield
10.
9.
8.
7.
6.
5.
4.5
4.
3
2.5
1965
1966
1967
1968
1969
1970
1971
1972
1973

Figure C - 2

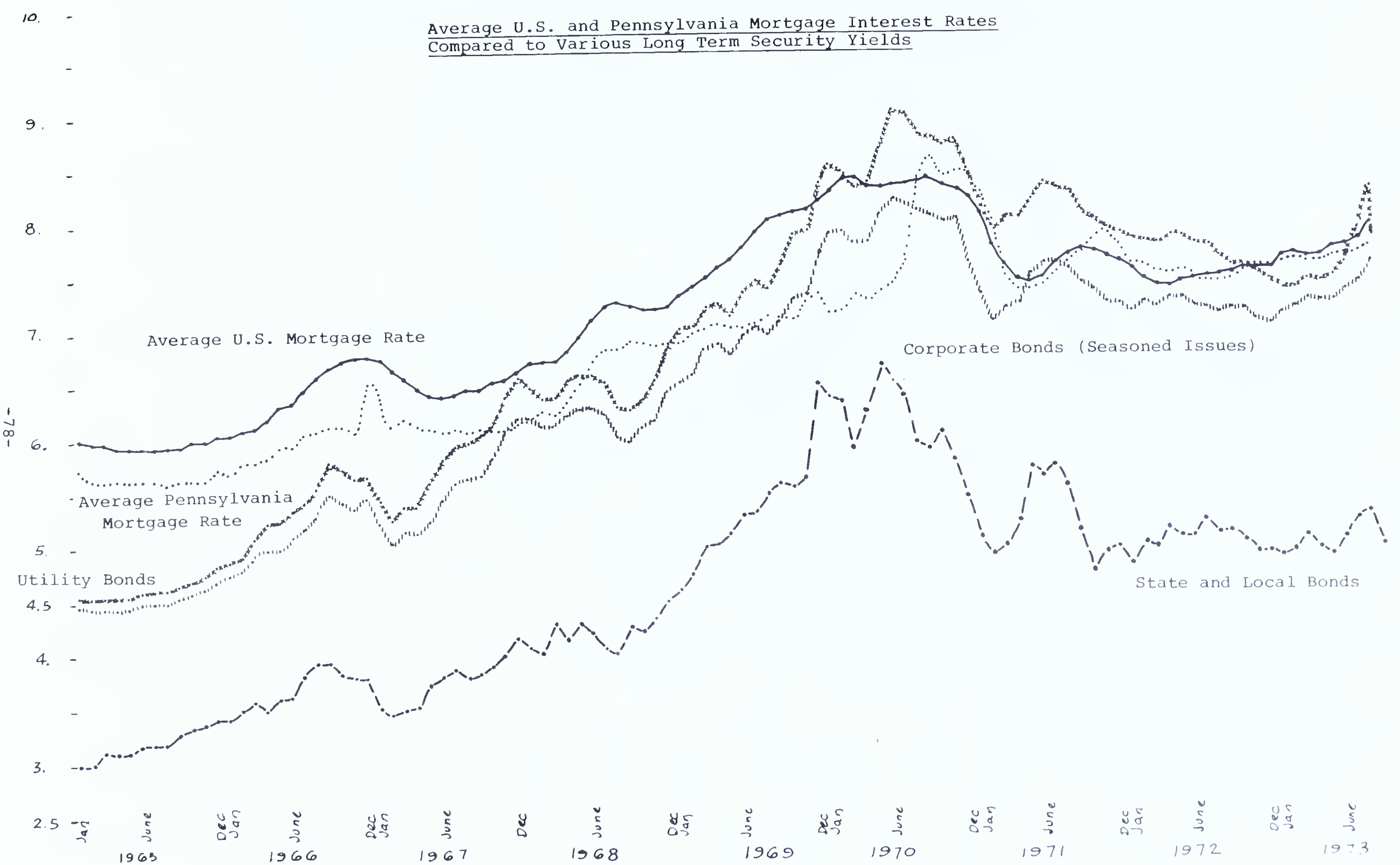

Average U.S. and Pennsylvania Mortgage Interest Rates
Compared to Various Long Term Security Yields
10.
9.
8.
7.
6.
5.
4.5
4.
3.
2.5
Average U.S. Mortgage Rate
Average Pennsylvania
Mortgage Rate
Utility Bonds
Corporate Bonds (Seasoned Issues)
State and Local Bonds
Jan
June
Dec Jan
Dec
1965
1966
1967
1968
1969
1970
1971
1972
1973

Figure C - 3

Average U.S. Mortgage Interest Rate
Compared to New Issue Corporate Bonds

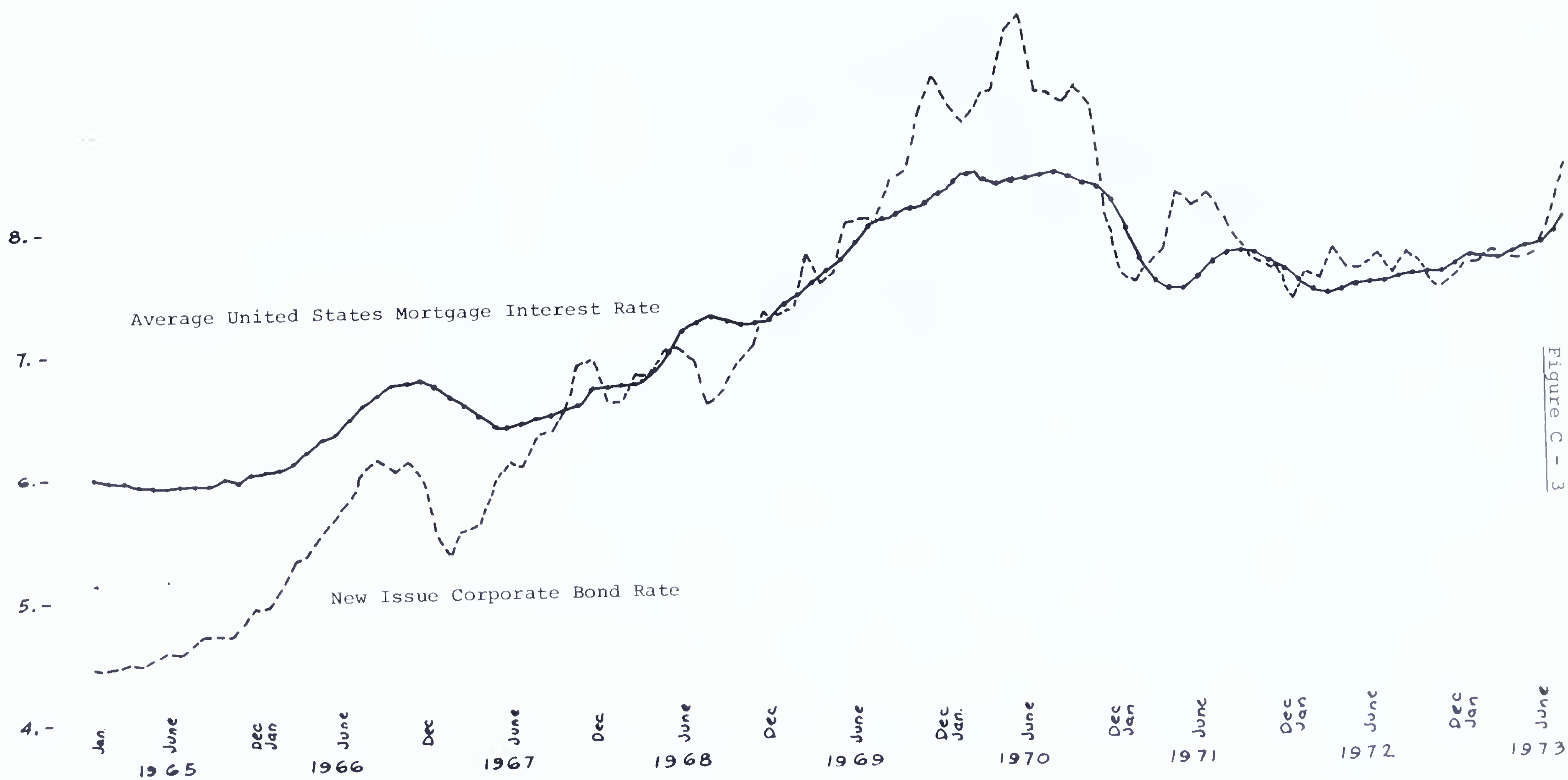


Figure C - 4

Average U.S. and Pennsylvania Mortgage Interest Rates
Compared to the Federal Housing Administration Ceiling

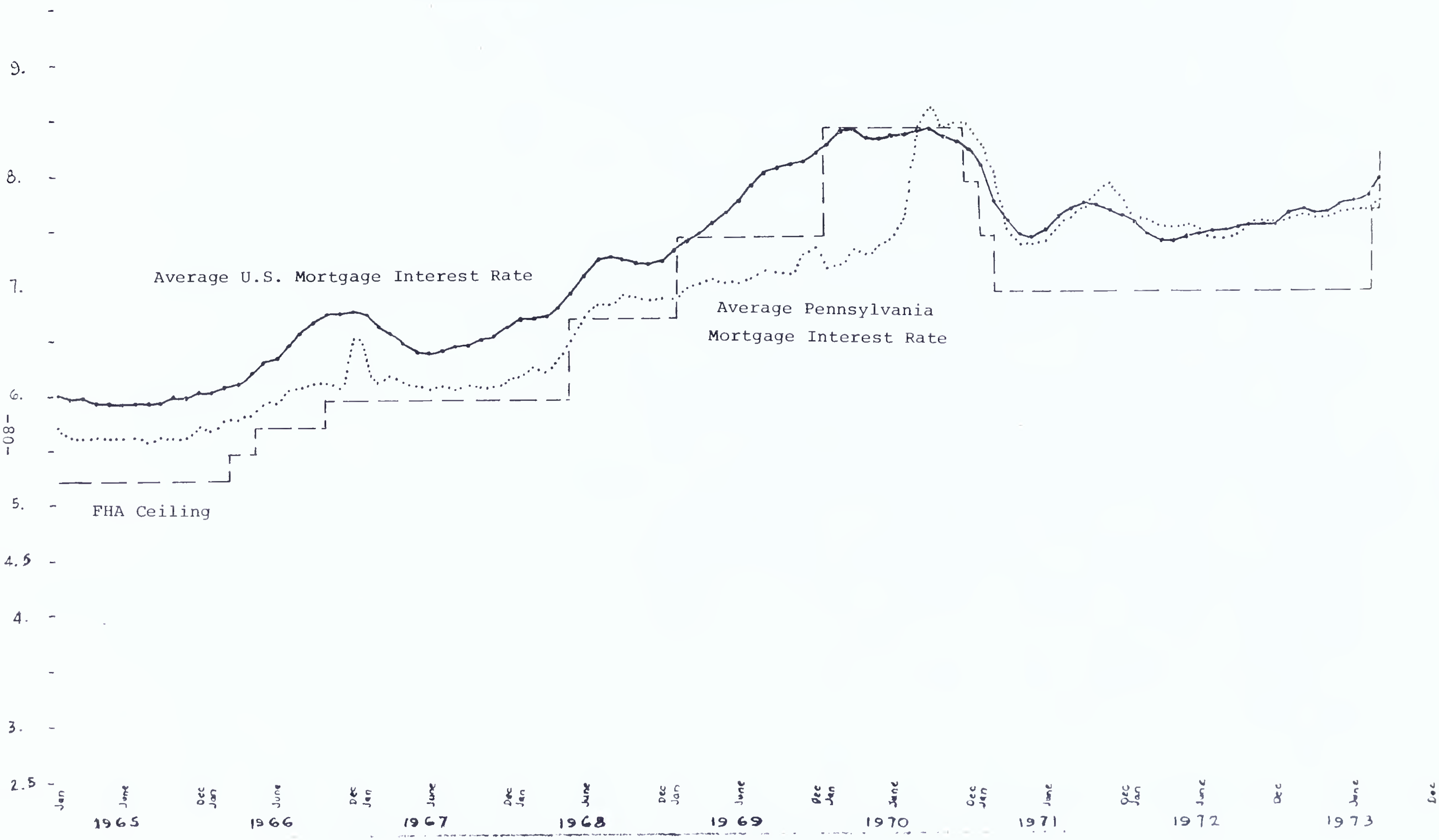


Figure C - 5

Average U.S. and Pennsylvania Mortgage Interest Rates
Compared to Yields on U.S. Gov't. Long Term Bonds